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Star Wars technology comes down to earth
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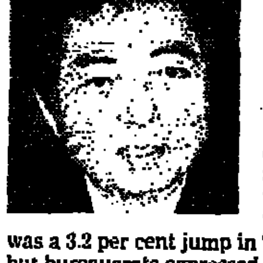
FINANCIAL TIMES

Europe's Business Newspaper — FRIDAY JULY 30 1993 — D8523A

Japan opposition to back reformist for premiership

MR Morihiro Hosokawa (below), leader of the reformist Japan New party, is poised to become the country's next prime minister, after a coalition of opposition parties pledged to back him. The Liberal Democratic party, which lost its majority in the July 18 election, now faces a spell in opposition for the first time since 1955. The reaction to Mr Hosokawa's likely appointment was a 3.2 per cent jump in Tokyo stock prices, but bureaucrats expressed concern over the unwieldy nature of the coalition. Page 18; Background, Page 4; Survey on Japan, Section III.



Bosnia republics plan: International mediators in Geneva proposed a union of three Bosnian republics, in an attempt to bridge the gap between the Serb, Croat and Moslem parties. Page 18

US growth sluggish: The US economy grew far more slowly in the second quarter than economists expected, but the financial markets' interpretation of the figures sent bond prices up sharply, while share prices broke into record territory. At 1pm the Dow Jones industrial average was up 18.44 at 3,0571.89. Page 18

Franco-German futures link-up: The Matif, the French futures and options exchange, unveiled plans to accelerate its co-operation with Deutsche Terminborse, its German counterpart. Page 19

World Bank profits hit: World Bank profits fell sharply last year, with net income falling to $1.13bn against $1.65bn year on year, after the bank increased its loan loss provisions by $610m to $3.15bn. Page 6

AZT 'effective on Aids': AZT, the controversial treatment for the Aids-causing virus, HIV, is effective in slowing progression to Aids, according to a study which appears to contradict another study which earlier this year queried the effectiveness of the drug. Page 4

Test for UK ruling party: Britain's ruling Conservative party faced a crucial test last night in a local parliamentary election in what has been one of their safest seats.

Demjanjuk acquitted: Israel's Supreme Court acquitted John Demjanjuk of being the sadistic "Ivan the Terrible", who operated Nazi gas chambers in the second world war. Page 4

Rouble row continues: Reformists and foreign advisers continued a fierce attack on the central bank's withdrawal pre-1993 banknotes. Prof Anders Aslund, a government adviser, also forecast increased inflation, a weaker of the rouble, and further tension among the Commonwealth of Independent States. Page 3

Zeneca, the bioscience group floated by Imperial Chemical Industries, reported a 41 per cent rise in pre-tax profits to £367m for the six months to June 30. Page 19; Lex, Page 18

RJR Nabisco, the US food and tobacco group, announced an 11 per cent decline in second quarter net income to $77m. Page 19

ABB eyes Russian power venture: Asea Brown Boveri, the Swiss-Swedish engineering group, may become the first western company to produce power plant from a former Russian defence factory. Page 6

Argentaria, the state-controlled Spanish banking group that was partially privatised earlier this year, lifted first-half net profits by 14.6 per cent to Pta43.1bn ($324m) after putting aside a Pta49.5bn provision for non-performing loans. Page 20

Allianz, Germany's largest insurance company, reported a dip in pre-tax profits to DM1.62bn ($953m) in 1992 after suffering its first underwriting losses in its domestic market since 1971. Page 20

Airline passengers gain: World airlines reported a slight gain in passenger traffic in the first half of 1993, an indication that the industry was slowly emerging from four years of recession.

Zimbabwe budget: Zimbabwe's finance minister presented a budget aimed at cutting the deficit in the year to June 1994 to 5.4 per cent of GDP from 11 per cent year on year. Page 4

Brazil lops noughts: With an exchange rate of about 75,000 cruzeiros to the dollar, Brazil cut three noughts from the inflation-battered currency, changing its name to the "real cruzeiro". Page 6

■ STOCK MARKET INDICES

FT-SE 100:	2917.6	(+33.4)
Yield	3.93	
FT-SE Eurotrack 100	1242.42	(+4.07)
FT-A All-Share	1441.9	(+1.1%)
Nikkei	20,456.85	(+627.27)
New York lunchtime		
Dow Jones Ind Ave	3574.40	(+20.95)
S&P Composite	450.63	(+3.44)

■ US LUNCHTIME RATES

Federal Funds:	3%
3-mo Treas Bills: Yld	3.085%
Long Bond	107 5/32
Yield	6.57%

■ LONDON MONEY

3-mo Interbank	6%	(same)
Liffe long gilt future:	Sep 109	(Sep 108 7/32)

■ NORTH SEA OIL (Argus)

Brent 15-day (Sep)	$17.00	(17.05)

■ Gold

New York Comex (Aug)	$397.8	(393.4)
London	$394.1	(394.2)

■ STERLING

New York lunchtime:		
$	1.4835	
London:		
$	1.4865	(1.4925)
DM	2.5775	(2.5675)
FFr	8.8075	(8.7425)
SFr	2.285	(2.26)
Y	157.75	(157.25)
£ Index	81.5	(81.1)

■ DOLLAR

New York lunchtime:		
DM	1.739	
FFr	5.94825	
SFr	1.5275	
Y	106.4	
London:		
DM	1.7345	(1.72)
FFr	5.925	(5.8575)
SFr	1.5245	(1.5145)
Y	106.2	(105.3)
$ Index	66.3	(65.7)

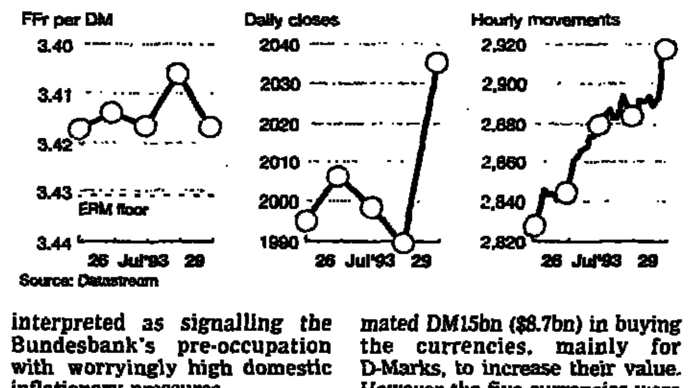
Tokyo close Y 106.08

Austria	Sch30	Germany	DM3.30	Malta	Lm0.60	S.Arabia	SR11		
Bahrain	Din1.250	Greece	Dr300	Morocco	MDh13	Singapore	S$4.10		
Belgium	BFr60	Hungary	Ft172	Neth	Fl 3.75	Slovak Rp	KSL45		
Bulgaria	Lw25.00	Iceland	IKr215	Nigeria	Naira45	Slovenia	SLT220		
Croatia	HRD5700	India	Rs40	Norway	NKr16.00	South Africa	R12.00		
Cyprus	C£1.00	Israel	Shk5.90	Oman	OR1.50	Spain	Pta210		
Czech Rp	Kcs45	Italy	L2700	Pakistan	Rs35	Sweden	SKr15		
Denmark	DKr15	Jordan	JD1.50	Philippines	Pso45	Switz	SFr3.20		
Egypt	E£4.50	Kuwait	Fils.600	Poland	Zl 22,000	Syria	S£50.00		
Finland	FM12	Lebanon	US$1.25	Portugal	Es215	Tunisia	Din1.250		
France	FFr9.00	Lux	LFr60	Qatar	QR12.00	Turkey	L8000		
						UAE	Dh11.00		

Future of EMS in jeopardy after heavy trading in weak currencies

Bundesbank ½ point rate cut fails to bolster ERM

By Peter Marsh and James Blitz in London and Judy Dempsey in Berlin



Source: Datastream

THE future of European economic co-operation was thrown into doubt last night after a token cut in interest rates by Germany's Bundesbank failed to meet demands from across the continent for easier borrowing conditions to assist recovery.

The decision by the Bundesbank council to cut its Lombard rate by half a percentage point, while leaving its more important discount rate unchanged, provoked a fresh wave of selling of weak currencies in the crisis-prone European exchange rate mechanism.

Equity and bond prices rose sharply across the continent on expectations that the strain would force an early dissolution of the ERM, so paving the way for lower borrowing rates.

The Bundesbank said it was continuing its policy of cautious cuts. The Lombard rate, representing the Bundesbank's ceiling to German money market rates, was reduced to 7.75 per cent. The discount rate, the floor rate at which it finances the banking system, was left at 6.75 per cent.

Although given a guarded welcome by German government ministers, the move was dismissed as technical by many private sector economists. It was interpreted as signalling the Bundesbank's pre-occupation with worryingly high domestic inflationary pressures.

The decision was greeted with dismay by senior officials at the European Commission, because it might open fresh divisions between Germany and other EC members who may accuse the country of putting its own interests above those of Europe.

"It's war", said one senior official close to Mr Jacques Delors, president of the Commission.

The events sparked the biggest strains in international currency markets since the pound left the ERM last September.

A wave of selling of the French and Belgian francs, Danish krone, Portuguese escudo and Spanish peseta prompted the Bundesbank and other European central banks to spend an estimated DM15bn ($8.7bn) in buying the currencies, mainly for D-Marks, to increase their value. However the five currencies were last night close to their ERM floors leaving three currencies, those of the Netherlands, Ireland, and Germany, unscathed.

Last night, Mr Edouard Balladur, the French prime minister, met Mr Edmond Alphandéry, economy minister, Mr Jacques de Larosière, Bank of France governor, and Mr Jean-Claude Trichet, treasury director, to discuss the franc. France is under particular pressure to cut interest rates because of a serious recession and high unemployment.

Officials in Spain, whose currency has already been devalued three times during a year of almost perpetual ERM strains, put a brave face on the day's developments. A civil servant in Madrid said the government would defend the peseta's parity. "Realignment [within the ERM] is not a hypothesis that we are working on," he said.

The French franc closed at FFr3.417 against the D-Mark in Europe, a 1.2-centime fall on the day, after intervention by the Bank of France and the Bundesbank. It slipped as low as FFr3.4262 in early US trading. Its ERM floor is FFr 3.4305.

The krone was also badly hit, falling below its ERM floor against the Dutch guilder at one stage. By the close of trading it was at DKr3.39 to the D-Mark, fractionally above its ERM floor. The Belgian franc, among the most closely tied currencies to the D-Mark, was also trading close to its ERM floor in the US last night. The peseta and the escudo both fell against the D-Mark despite substantial intervention from their central banks. In US trading, the peseta was just above its ERM floor against the German currency at Pta82.24.

The dollar and sterling were boosted by the ERM crisis. Sterling closed 1 pfennig up on the day at DM2.5775, despite strong speculation in London money markets of a UK base rate cut. The dollar reached its highest level against the D-Mark for two years, closing in London at DM1.7345, up nearly 1¼ pfennigs.

The decision by the Bundesbank council, in its last meeting until August 26, effectively blocks significant monetary easing across Europe for the next month while other ERM currencies remain tied to the D-Mark.

It sparked market expectations that other recession-hit nations in the ERM would find this restriction too much to stomach, and so follow the lead of Britain and Italy last year by quitting.

French equity investors supported this theory, pushing up share prices by 2.3 per cent to the highest level since May 1992. Dutch and Spanish share indices rose by more than 1.5 per cent, while in London the FT-SE 100 index gained 33.4 to close at 2,917.6, a four-month high.

On bond markets, German, French and Spanish government securities all moved up, while UK gilts gained half a point.

THE ERM IN DOUBT

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Israel snubs pleas for Lebanon ceasefire

By Julian Ozanne on the Israeli-Lebanon border, Michael Littlejohns in New York and Mark Nicholson in Beirut

ISRAEL yesterday brushed aside US efforts to arrange a ceasefire in southern Lebanon, and sent another armoured column into the area to continue its bombardment of Lebanese civilians for a fifth day.

Last night Mr Boutros Boutros Ghali, the UN secretary general, called for an immediate ceasefire and a halt to all hostilities in Lebanon.

Voicing grave concern, he denounced "the incessant Israeli attacks" despite appeals for restraint. He said the policy of driving villagers from their homes in southern Lebanon must be stopped immediately. Those already displaced should be allowed to return home in peace and safety.

Mr Yitzhak Rabin, the Israeli prime minister, ignored mounting international and domestic pressure and said the operation would go on until the pro-Iranian Hizbollah guerrillas, responsible for occasional attacks on Israel, were neutralised.

He said: "As long as the operation's goals are not achieved we won't cease Israel Defence Force actions. Hence all news about a ceasefire today at 6pm are baseless.

"We will continue to act until we reach the goals in a manner acceptable to the government of Israel." Mr Rabin's remarks came after Lebanon's information minister said Mr Warren Christopher, US Secretary of State, had telephoned Mr Rafik Hariri, the Lebanese prime minister, and told him he was working to arrange a ceasefire to start yesterday evening.

Mr Christopher, who is due to visit the Middle East at the weekend, also spoke by telephone to Mr Farouk Sharaa, the Syrian foreign minister, with whom Mr Hariri held a second day of talks.

Optimism over the negotiations rose throughout the day in Lebanon, which has suffered 100 dead, more than 500 injured and the displacement of 300,000 refugees, in the bombardment. Hopes had been fuelled by a widespread belief in Beirut that Israel could not continue such a heavy bombardment while Mr Christopher was due in the region.

Israel has declared that its intention is to cause a refugee crisis which will force the Lebanese government to act against Hizbollah. But a senior official in Beirut said on Wednesday night that the government was neither politically nor physically able to take action against the Iranian-backed group, or voice opposition to Hizbollah's "resistance" to the Israeli presence in south Lebanon.

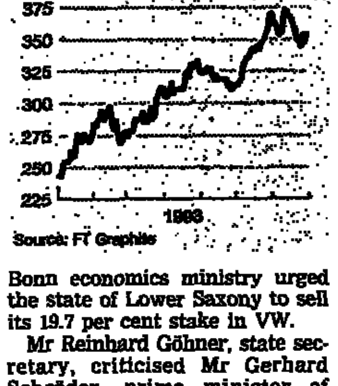
The official said: "In the eyes of public opinion we would be doing the work of Israel, which no government in Lebanon can afford to do."

Israel's army said yesterday afternoon that it had fired more than 17,500 artillery shells since "Operation Accountability" began on Sunday.

Amid growing dissension within the cabinet over the operation, the leftwing Meretz bloc of MPs, the Labour-led government's most important coalition partner, stepped up its campaign to get the attack halted. A statement said the bombardment was a "moral and political" mistake.

Authorities probing perjury allegations in VW-Opel clash

By Christopher Parkes in Frankfurt



Source: FT Graphite

GERMAN prosecutors have started investigating suspicions that Volkswagen director Mr José Ignacio Lopez de Arriortúa and others may have committed perjury, and speculation grew yesterday that he could soon be charged in connection with allegations of industrial espionage.

Hamburg state prosecutors confirmed the opening of an investigation following suggestions that they should examine discrepancies between testimony and affidavits presented in evidence at a recent civil hearing.

The hearing related to the continuing clash between VW and Adam Opel, the General Motors German subsidiary. Mr Hans Wilhelm Gäb, vice-president of GM Europe, said yesterday he felt that prosecutors had enough evidence for criminal charges.

"The public prosecutors' office, following thorough examination and investigation, confirms that [Opel's] suspicions are justified. According to its own statements, the office has made 'decisive' progress," he said.

Meanwhile, the federal government was asked to mediate in the battle, and a senior official in the Bonn economics ministry urged the state of Lower Saxony to sell its 19.7 per cent stake in VW.

Mr Reinhard Göhner, state secretary, criticised Mr Gerhard Schröder, prime minister of Lower Saxony, for defending VW managers, and said it was inappropriate for politicians to be involved. There was no reason why the state should have such stakes, he said. The spying row was damaging the image of German industry and could be fatal if it was not resolved soon.

Mr Klaus Bregger, head of the influential MIT association, which represents medium-sized companies, appealed to Mr Günter Rexrodt, federal economics minister, to act as a mediator. He reminded the minister that every sixth job in Germany depended on the motor industry.

Concern over the implications of the case soared yesterday following claims this week from Mr Ferdinand Piëch, VW chairman, that he was at war with GM, and indirect allegations that incriminating evidence against Mr Lopez and his colleagues had been planted.

Mr Gäb yesterday rejected as "grotesque" Mr Piëch's charges that Opel, an "American" company, was seeking to destroy VW. Opel had been active in the country for 130 years and ensured employment for 400,000 people in Germany, he said.

He said Mr Piëch, an Austrian, who did not carry a German passport, was mobilising national sentiments in his host country in a manner that "burdened" German industry as a whole. The VW chairman's attitude reflected a "psychosis-like bunker mentality", Mr Gäb added.

The suggestion of a perjury probe came from lawyers of Adam Opel, the GM subsidiary.

GM rebuts allegations, Page 2
Chris Lorenz, Page 14
Home turnround revives GM, Page 19

Pay-offs in Italian scandal said to top $80m

By Robert Graham in Rome

ALLEGATIONS that bribes worth L130bn ($81m) were paid to Italy's top politicians and businessmen during the 1989/90 reorganisation of the chemicals industry last night injected an explosive new element into the country's 18 month old corruption scandals.

The payments were allegedly made on the orders of the late Mr Raul Gardini, then chairman of Montedison, the Ferruzzi group's chemicals arm.

The details were released by the weekly magazine L'Espresso, which will publish a full account at the weekend. The magazine's revelations were partly backed up yesterday by a series of warnings issued by investigating magistrates to politicians and businessmen involved.

The alleged payments were first related to Mr Gardini's efforts to gain control of Enimont, the chemicals joint venture with Eni, the state oil concern. Further bribes were paid when Montedison received the L2,805bn payment for its 40 per cent stake in Enimont from Eni, as well as over the way Eni agreed to buy the outstanding 20 per cent of shares, largely in the hands of Mr Gardini's supporters.

The politicians involved include most of the then senior figures in the ruling five-party coalition – Mr Arnaldo Forlani, then leader of the Christian Democrat Party; Mr Bettino Craxi, then leader of the Socialist Party; Mr Claudio Martelli, then Socialist deputy premier; Mr Cirino Pomicino, a senior Christian Democrat minister; Mr Carlo Vizzini, then leader of the Social Democrats; Mr Renato Altissimo, then leader of the Liberals and Mr Giorgio La Malfa, then leader of the Republicans.

Until now magazine extracts relating to the corruption scandals have been accurate and apparently unofficially endorsed by the investigating magistrates.

Both Mr Forlani and Mr Pomicino yesterday admitted they had already been warned that they were under investigation for the

Continued on Page 18

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GM rebuts Piëch allegations with date, time and place

Christopher Parkes hears Opel's detailed version of row with VW over missing documents and former employees

ADAM OPEL, the German subsidiary of General Motors, yesterday reopened its barrage on Volkswagen's defences. But there was no return fire.

VW's big gun, chairman Mr Ferdinand Piëch, rolled out on Wednesday for a brief bombardment to counter industrial espionage charges against his employees, had been pulled back from the fray.

"In Volkswagen's view everything relevant to this subject has been said several times. We... have nothing more to add," the company said.

Meanwhile, Mr Hans Wilhelm Gäb, vice president of GM Europe, yesterday rebutted Mr Piëch's suggestions that evidence designed to incriminate VW's production director, Mr José Ignacio López de Arriortúa and three colleagues might have been planted. Mr Piëch referred yesterday to "other hands" being involved.

The four, all former GM employees, are under criminal investigation in Germany on suspicion of industrial espionage. Mr López is also the focus of an FBI probe in the US.

Opel officials claimed that Mr López – who signed a contract with VW, by VW's own account, at 9.57pm on the evening of March 9 this year, and called Mr Piëch immediately afterwards – attended a meeting in Opel headquarters on March 10 at which he asked for "internal" documents to be sent to an address in Spain.

See Editorial Comment, Lex Column

Later the same day, he was back in Detroit, where he told Mr Jack Smith, GM president, that he was leaving for VW, the Opel officials said. After a tug-of-war between the two companies, in which he was offered promotion to keep him on board, Mr López left for Germany on March 15.

He left undelivered the final draft of an emotional speech, which he had personally approved that morning, and the clouds of doubt which prompted Opel shortly afterwards to ask German prosecutors to probe their suspicions of industrial espionage.

According to Mr Gäb, on December 2 Mr López, then head of global purchasing at GM, asked for the so-called Epos list, containing details of all GM's European parts prices last year – equivalent to 70,000 to 90,000 print-out sheets – to be transmitted to him in the US. These data, Mr Gäb claimed, which were sent to him on December 22, were of no use to him in his work in the US. They had since disappeared, he added. "And they could be in the hands of people to whom they do not belong."

There was more, including evidence suggesting that Mr López and others had taken part in a large-scale information gathering exercise while, as has since been shown, he was in negotiations with VW.

Mr López has repeatedly claimed that he finally decided to switch to VW on March 9. He lost all enthusiasm, he claims, when he discovered that his pet project, a secret super-lean car production plant, was not to be built in his Basque homeland.

Opel said yesterday that no final decision had been made at that point. The plan had in fact been "frozen" much earlier because of poor business conditions.

Indeed, on January 14, Mr López had personally drafted a letter telling a Spanish financing and construction consortium just that. The letter was signed and sent off by Mr Louis Hughes, president of GM Europe. The next day, Mr López, who had already been talking to Mr Piëch, met Mr Jens Neumann, the VW personnel director for the first time, Opel officials said.

Three weeks ago, Mr López was disappointed again. After claiming his dream was soon to be realised, Mr Piëch publicly announced that the project was "out of the question at this time... I have told Mr Lopez this."

Reuter

Opel executives Hans Wilhelm Gäb, left, and Horst Borghs at a press conference yesterday

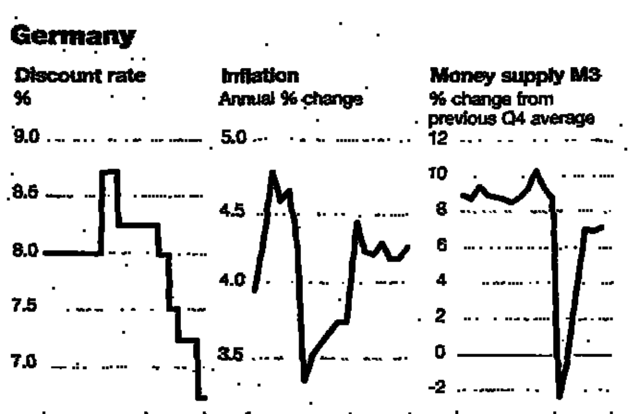
Bundesbank's refusal to cut discount rate leaves exchange rate mechanism in disarray

Germans place French in a double bind

Bundesbank's decision has left the ball in France's court but options appear equally unpalatable, writes **John Plender**

AS policy options go, waiting for the Bundesbank to put the other members of the exchange rate mechanism out of their misery looks close to the end of its shelf-life. With pressure directed at strong and weak currencies alike after yesterday's smaller than expected cut in German interest rates, it is clear that the markets are losing confidence in the ERM itself.

The implicit message is that a peg to the D-Mark is simply not tenable, while the inflationary strains of German unification persist, for countries whose unemployment rates are rising as fast as those of France or Spain.



Source: Datastream

The future of the ERM now lies chiefly in the hands of the French government. In effect, the Bundesbank has invited France to go back to an unpalatable combination of raising short-term interest rates (again) and supporting the franc through central bank intervention. Yet it is becoming harder by the week to argue that the strategic benefits of the *franc fort* policy outweigh the costs in lost output and employment.

There lies the credibility problem for France and for what remains of the ERM. In the US, where the economy is growing and inflation is low, real (inflation-adjusted) short-term rates of interest are close to zero. In France the economy is shrinking, inflation is minimal, yet real short rates are close to double figures. French industry and commerce are less sensitive to short rates than the Anglo-Saxon economies. But they are not immune; and the damage to the increasingly fragile banking system is mounting.

It follows that the further French rates rise, the less convincing the existing policy looks to the markets – especially with a presidential election due in less than two years. But if the French government fails to raise rates, it will find it harder to pin the blame on the Bundesbank if the franc is ultimately forced to float.

It is a classic double bind; and the paradox is that France does not need a devaluation on fundamental economic grounds. French industry is more competitive than German industry. The problem relates solely to the level of interest rates.

If, as seems inevitable, market pressure persists, the choice will lie between realignment within the ERM and floating the franc.

The first option is manifestly less horrific, from a political point of view. But it would destroy the hard-earned credibility that the franc has won since the rigid relationship with the D-Mark was established in 1987. The result of the credibility loss would be that the markets would demand a higher risk premium in French interest rates. Indeed, according to Mr Keven Darlington of UBS Global Research, the level of interest rates might then be even higher than when speculation began.

In those circumstances any hope of French interest rates falling below those of Germany for a sustained period would be destroyed. The speculators would return to the assault, causing further damage to the real economy. And the policy-makers would be forced to consider the last ditch solution of floating.

That, nonetheless, is something that the government of Mr Edouard Balladur would do almost anything to avoid.

It is widely accepted that to float would destroy the ERM which, with European Monetary Union, remains at the core of France's European policy. It would inflict a devastating blow on the Franco-German relationship. And it could well end the tenure of Mr Balladur, who has said that he will not preside over a devaluation.

This underlines the dangers inherent in other countries entrusting important areas of domestic policy to the Bundesbank, whose agenda is all too clearly defined by statute. The German central bank has no mandate to take into account economic conditions in other ERM countries. It is overshooting its targets for inflation and the money supply. And it remains justifiably concerned at the level of inflationary pressure in the German public sector.

See Editorial Comment, Lex Column

The irony in all this is that there is little or no inflationary pressure at all in Germany's private sector, where exporters are being subjected to a vicious squeeze. Equally ironic is the fact that France's anti-inflationary credentials would probably remain intact after a float, despite any initial devaluation. From the moment that the currency markets are forced to evaluate the franc on economic fundamentals once again, they will have to recognise that the French economy is in better shape than the German and that on competitiveness grounds the need is for a weaker D-Mark, not a stronger one.

By putting an end to prolonged currency turmoil, a float would also help prevent the European economy succumbing to powerful deflationary forces. And it would reduce the risk of a retreat into protectionism arising from recriminations over wholly unintended competitive devaluations. But a float remains the extreme option. It will not be conceded lightly by the French.

How a black day for the ERM unfolded

(All times are BST in London)

13.11: Announcement that the Bundesbank has left discount rate unchanged and cut Lombard rate.

13.11-13.19: French franc falls one centime against D-Mark to FFr3.4150.

13.30: Central banks of Denmark and Netherlands intervene to support Danish Krone, as it falls through its floor against Dutch guilder.

13.49: Belgian central bank intervenes in market after Belgian franc falls outside its self-imposed margins against the D-Mark.

13.50: Peseta comes under pressure, falling to Pta82 per DM.

14.05: Denmark says it is prepared to raise interest rates to defend currency.

15.22: Second intervention on Danish krone by Netherlands.

15.30: Bundesbank says it is involved in concerted action to support the French franc. Bank of France and Dutch central bank also confirm they are intervening to support the French currency.

16.00: Official trading in the ERM closes. Most currencies drift closer to ERM floors as central bank intervention slows down.

15.25: Dollar reaches DM1.74 to the D-Mark, highest level since September 1991.

The thinking in Frankfurt

Guarding the D-Mark comes before the EMS

By Christopher Parkes in Frankfurt

HOPES had been rising for days that the Bundesbank might yesterday have provided a modest fillip for European business confidence and at least token support for the wobbling European Monetary System. But the German central bank does not make policy decisions based on hopes. And as guardian of the anchor currency in the European Monetary System, the credibility of its commitment to D-Mark stability is ultimately just as important as the system itself.

Disappointed but not surprised, German economists agreed that domestic monetary conditions would have to show concrete signs of improving before the central bank could proceed with cuts in its key discount interest rate.

"I did not expect them to do anything, not at what was probably the worst possible moment," said Mr Dieter Beier at Berliner Bank. Money supply was growing at 7.1 per cent. Year-on-year inflation was now 4.3 per cent. "These are dreadful figures, and all we have is hopes that they will improve," he added. The Bundesbank has set targets for annual money supply growth rates this year to be retained within a band ranging from 4.5 per cent and 6.5 per cent, and inflation to be ground down to 2 per cent.

Yesterday, once again, external expectations crashed against the internal constraints governing the guardians of the German currency. And the only consolation available was what the savings bank association described as "a very narrow" easing, comprising a 0.5 percentage point cut in the Lombard rate and a fixed rate of 6.95 per cent for next week's securities repurchase tender, unchanged from this week's rate.

The so-called repo rate had dropped decisively in recent weeks, and this week's cut from 7.15 per cent had been taken as a sign that the Bundesbank wanted to help, said Mr Uwe Angenendt, an economist at BHF Bank. This showed in the restoration of relative peace within the EMS after Wednesday's repo announcement. Most observers had read this move, together with tensions within the EMS, recent upbeat speeches from Bundesbankers, and the widely acknowledged need for a confidence-boosting change to help lift the German economy off the floor of recession, as a signal that the discount rate would also come down.

The only consolation was 'a very narrow' easing

But as so often in the past, economists' sense of timing was out of synchronisation with that of the central bank.

Meanwhile, hopes remain unaltered that by the end of the year the internationally sensitive discount rate, which governs short-term lending rates of greatest concern to other EC economies, will be down from 6.75 per cent today to 6 per cent or even lower. But the pace of the decline and the size of the steps depend entirely on Germany's internal monetary and inflationary developments. At the same time, Mr Beier points out, German industry, which makes more than 70 per cent of its borrowings on longer terms, is enjoying the effects of real capital market rates of 2 per cent – a record low, he says.

Quotes of the day

It's high noon for the ERM. I wouldn't give two beans for the survival of the ERM now – *David Brown, chief economist at Tokai Bank*

I think this is a watershed for the ERM and could result in its break-up. I expect heavy speculation in the next couple of days but the Bundesbank has taken the market to the brink before and the end is not here yet – *Steve Major, Credit Lyonnais*

The conservatives in the Bundesbank won the day. The bank did not want to be too devilish – *unnamed German bank economist*

The Bundesbank had to decide if it wanted to sacrifice its credibility on the altar of the EMS or keep its domestic credibility intact – *Armin Kayser, economist Swiss Bank Corp*

The Bundesbank clearly is still concerned about domestic economic developments. They weighted these more heavily than an EMS crisis – *Juergen Pfister, Commerzbank economist*

The Bundesbank is in a tight corner, but I'm absolutely convinced they will do whatever is necessary to preserve the ERM – *Stefan Collignon of the Association for the Monetary Union of Europe*

Dismay in Brussels

Campaign blow for Commission

By Lionel Barber in Brussels

EUROPEAN Commission officials reacted with a mixture of dismay and apprehension to the Bundesbank's decision to leave its key discount rate intact at 6.75 per cent.

"It's war," said a senior official close to Mr Jacques Delors, president of the European Commission. Official disappointment at the modest nature of the Bundesbank cut was palpable.

For most of the year, the Commission has been waging a quiet campaign for reduced European interest rates to lift the European economy out of recession and restore confidence to the goal of economic and monetary union.

At times this year tension between Brussels and Frankfurt has surfaced. Mr Helmut Schlesinger, Bundesbank president, visited the EC capital last January and quashed the idea of a "fast track" to Emu involving France, Germany and the Benelux, supported by possible changes in the "convergence criteria".

At the EC summit in Copenhagen last month, Brussels officials counter-attacked. Many could barely hide their pleasure at the final communiqué's call for an early reduction in interest rates.

When the Bundesbank reduced its discount rate by half a percentage point to 6.75 per cent ahead of the Group of Seven summit in Tokyo, the reaction inside the Commission was positive but guarded. One official explained that the size of the Bundesbank cut was less important than the promise that further reductions were in the offing.

These expectations were deflated yesterday. EC officials now believe it is unlikely that Frankfurt will move its key rates until September.

Bonds stronger across Europe

Markets bank on falling rates

By Peter John in London

GOVERNMENT bond prices, which rise in anticipation of a fall in interest rates, were stronger throughout the member countries of the European exchange rate mechanism yesterday.

The Bundesbank decision to keep the discount rate unchanged surprised the markets. But there had been a conviction that something had to happen to help ease the high rate problem of the other ERM members.

Ms Marie Owens Thomsen, an economist with Midland Global Markets in London, said: "From a trading point of view it's not that difficult. One way or another rates are going to come down."

German debt prices shrugged off the Bundesbank's refusal to reduce its floor rate from 6.75 per cent. However, Ecu bonds, which represent the whole range of currencies in the ERM rather than just individual component parts, fell sharply.

French government bonds rose about two thirds of a percentage point on a conviction that either through mutual realignment or independent easing French short-term rates will have to fall. Spanish bonds lept for the same reason.

Outside the ERM, the attractions of sterling as a safe haven currency prompted buyers of UK government bonds and gilt prices rose half a point in spite of the extra supply from Wednesday's £3.25bn Treasury auction. Gilts also shrugged off nervousness surrounding yesterday's by-election in Christchurch, southern England, which was seen as an uphill battle for the governing Conservative party.

Italy, also outside the ERM, saw its bond market pick up sharply.

The fall-out in Paris

Condemned to defend the franc fort

By John Ridding and Alice Rawsthorn in Paris

GERMANY'S decision not to cut its discount rate yesterday is likely to present the French franc with its most serious crisis within the European exchange rate mechanism, economists said yesterday.

The decision could strain Franco-German relations. The Bundesbank's reluctance to cut rates to help its main European partner presents Paris with a difficult decision on whether to raise interest rates sharply to protect the currency at a time when France's recession is deepening.

The French franc came under immediate assault after the Bundesbank announcement, losing almost 1.3 centimes against the D-Mark despite heavy intervention by the French and German central banks. The franc traded at slightly more than one centime above its ERM floor rate of FFr3.4305 to the D-Mark.

The CAC-40 Paris stock market index rose by 2.34 per cent to close at 2,036 points, its highest level in more than a year. Its sharp rise reflected an expectation among investors of the franc being devalued within the ERM or that it might be floated, allowing French interest rates to fall.

"The Bundesbank decision is an indication to the markets to sell the franc," said Mr Robin Hubbard, chief French economist at Paribas in London. "The Bundesbank has effectively told the markets that it has done as much as it can to save the ERM, but that from now onwards it has to prioritise domestic considerations."

Economists in Paris argued that the result would be a renewed assault on the franc, raising the prospect of devaluation or a realignment of ERM parity rates. But they stressed that the fate of the franc was unlikely to be resolved quickly.

In particular, they stressed the determination of the French government to protect the franc. Mr Edouard Balladur, the French prime minister, has said that an alternative to his *franc fort* policy would require a change in prime minister. "They are condemned to follow this policy through," said one Paris banker.

Economists argued that the survival of the existing franc/D-Mark parity would partly depend on whether and for how long the French government could raise interest rates. Last week, the Bank of France raised overnight rates from 7.75 per cent to 10 per cent in an attempt to bolster the franc's defences. But with gross domestic product expected to contract by 0.7 per cent this year, and with unemployment forecast to reach 12.5 per cent by the end of December, a policy of sustained interest rate rises does not appear plausible, say economists.

However, said Mr Hubbard: "If the French can sweat it out for long enough the speculators might give up. The fundamentals of the French economy are also still good, which won't make much difference in the short term but might provide some help in the longer term."

One of the few sources of consolation yesterday for the Bank of France was the publication of its balance sheet which showed that its net reserves stood at FFr122.95bn ($21bn) at the end of last week, considerably higher than economists had expected. The French central bank was forced late last week to intervene in the franc's support, but managed to spend less than the market estimated.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented by Edward Hugo, Managing Director. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41. Fax 33 93 53 35.

Reformers step up attack over rouble

By John Lloyd in Moscow

REFORMERS in the Russian government and their foreign advisers yesterday continued a fierce attack on the decision of the central bank to withdraw from circulation all pre-1993 banknotes.

They demanded that the decision be annulled, warning of dire consequences to the international aid package pledged to Russia if not.

Professor Anders Aslund, an adviser to the Russian government, forecast increased inflation, a weakening of the rouble, and continued destruction of links between the members of the Commonwealth of Independent States.

Evidence of pressure on the CIS emerged yesterday when a large aluminium smelter in Saratov, Russia, warned that it would have to close because raw materials from Kazakhstan had been cut off as a result of the Russian bank's decision to withdraw the notes.

Prof Aslund warned that "there will be a flight from the rouble" and said the present rise of the rouble against the dollar was a "temporary phenomenon because of the artificially induced shortage of notes".

Mr Andrei Illiaronov, economic adviser to Mr Viktor Chernomyrdin, the Russian prime minister, said the issue had not been tabled at the cabinet meeting yesterday – but would come up at a special cabinet meeting at the end of next week called to discuss "a whole range of the most important economic questions".

The latest trends in the Russian economy presented yesterday by the government's Centre for Economic Reform show that inflation is rising again, from a level of around 17 per cent in May to around 20 per cent last month. Industrial production is shown as remaining stable, having recovered to the level of July 1992.

Privatisation continues to rush ahead, with a record Rbs380bn in revenue from privatised companies in May. Separate figures from the state privatisation committee claim that one-third of all enterprises in Russia – most of which are small – have been privatised.

● There was "massive" tax evasion last year, amounting to a sum equivalent to $8bn-$10bn, according to Mr Vladimir Gusev, head of Russia's tax collection service. Mr Gusev said yesterday that some 15 per cent of all taxes were not paid for 1992. He said the growth of corporate debt estimated at Rbs6,500bn had delayed payment of taxes.

Many companies tried to avoid taxes by dealing in cash and failing to keep accounts.

Mr Gusev said that the International Monetary Fund and private German companies were assisting in establishing a computer system for tax collection – while cash registers are to be made mandatory for all sales point.

Privatisation scheme will be viable, says Poland

By Christopher Bobinski in Warsaw

POLISH officials said yesterday that, despite some opposition, enough state sector enterprises would participate in the country's mass privatisation plan to make the scheme viable.

Mr Ron Freeman, the acting president of the European Bank for Reconstruction and Development has meanwhile confirmed that the bank will "ensure that the companies [being privatised] will have full access to the European Bank's resources".

Despite Mr Freeman's encouragement that companies seriously consider joining the privatisation programme, 30 companies have refused to participate. The Privatisation Ministry is conducting talks with scores more to persuade them to join.

Under the plan, more than 600 state sector enterprises are to be handed over to western managed investment funds. Shares will be distributed at a nominal charge to Polish applicants. Many companies hesitant about the scheme are planning management or employee buy-outs or are considering joint ventures with western partners.

About 200 companies are already 100 per cent state-owned joint stock companies which have been earmarked for the scheme and will be participating. Another 440 companies have the choice of opting out by the end of this month and the ministry has accepted decisions by 30 to do so.

Meanwhile, 100 companies have confirmed they will be participating, according to Mr Jerzy Thieme, who is responsible for the scheme in the ministry,

Implementation of the scheme will leave Poland with around 5,600 enterprises still in state hands. Around 780 have been privatised to date.

Reuter

A girl says farewell in Sarajevo as she prepares to be evacuated to Italy from hospital, along with five other children and an adult

Tajikistan announces weapons amnesty

THE Tajikistan leadership, plagued by rebel attacks from neighbouring Afghanistan, announced an amnesty yesterday for both insurgents and refugees, Reuter reports from Moscow.

Itar-Tass news agency said the Islamic rebels operating in Tajikistan were given until September 9 to hand in their weapons. Those in Afghanistan had to return by the same date.

The amnesty was announced by the Tajik parliamentary leadership, dominated by pro-communists and conservatives.

Hundreds of thousands of refugees fled to Afghanistan from the impoverished Central Asian state after the Islamic-led opposition was defeated in a civil war late last year. Most of the fugitives have been reluctant to return and the government has refused to hold talks with the rebels.

Russian and western human rights groups accused Tajikistan's government on Tuesday of allowing the torture and persecution of refugees returning from camps in Afghanistan.

The Tajik and Russian governments say the rebels have launched several attacks across the border, which is guarded by Russian and Tajik troops, with support from Afghan mujahideen.

Mr Anatoly Adamishin, the deputy Russian foreign minister, arrived in the Tajik capital Dushanbe yesterday to pursue Moscow's diplomatic drive to end the border conflict. But media reports said fighting at the border was continuing.

● The IMF has approved a $98m credit for Belarus under its systemic transformation facility, a new loan fund designed to help the countries of eastern Europe and the former Soviet Union to make the leap to a market economy, writes George Graham in Washington.

The IMF said the money will support an economic programme aiming to cut the monthly rate of inflation from 30 per cent to 5 per cent by the end of the year and limit the fall in output to 15 per cent this year.

Belarus follows Kyrgyzstan, Russia, Kazakhstan and Slovakia in drawing on the STF, which offers less strict conditionality than a traditional IMF standby credit agreement.

Brussels scraps proposed rules in 'house-clearing'

By Lionel Barber in Brussels

THE European Commission is scrapping around 150 proposals for new EC legislation, a sign that its appetite for making new Community rules is waning.

The rules cover transport, energy, science, telecommunications, consumer policy, financial affairs, the environment and agriculture.

Many are several years out of date, while others have been incorporated in revised proposals. Some are "no longer considered appropriate in current circumstances", according to a Commission spokesman.

Among the most eye-catching are rules for harmonising national legislation covering noise emissions from rail vehicles; rules covering the EC's participation in an international conference in Geneva on the protection of vegetable extracts; and a resolution calling for Community-wide action plan to encourage libraries in Europe to co-operate on the use of new information technologies. An EC official described the withdrawal of the 150 proposals as a routine "house-cleaning exercise".

He said it was quite separate from the Commission's efforts to root out redundant proposals for legislation which EC leaders agreed at last December's EC summit in Edinburgh.

This campaign is sensitive because it contains legislative proposals currently in train. Germany, France and the UK, all of which have recently become more wary of Brussels powers to propose legislation, believe it could prove a true test of "subsidiarity" – devolving power to the lowest appropriate national, regional or municipal level.

Earlier this week, the UK and France agreed a list of 24 items of EC legislation which should be amended or withdrawn.

These include EC directives on employment conditions for workers in privatised industries, on taxation of stock exchange transactions, and on standard of water quality.

Money transfer costs 'too high'

By Lionel Barber

EUROPEAN banks are charging too much for cross-border money transfers within the EC, according to a new study by the European Commission.

The study found that two in three banks did not provide written information about their fee scales, while the quality of service varies widely among the 12 EC member states.

The Netherlands, Denmark and the UK had the most efficient banking services covering dispatch and receipt of money transfers, according to the study.

The worst services were found in Italy, Spain and Greece.

Mr Vanni d'Archirafi, EC commissioner responsible for the Single Market, described the findings as disappointing. He called for the urgent adoption of the leading European banking federations' guidelines, hinting that failure to act could lead to legislation.

However, Mr d'Archirafi paid tribute to the efforts by some European banks to create automatic clearing mechanisms to improve the payments network within the Community.

The Commission study focussed on 34 banks and almost 1,000 transactions. It estimated that in 1990 around 200m cross-border transactions of less than Ecu2,500 ($2,820) took place in the EC.

On average, the cost of money transfers within the EC is around Ecu20, the study revealed. The fee rises to Ecu24 if "double charges" – fees levied by the banks at both ends of the transaction – are included. Double charges were discovered in 42.5 per cent of all transactions.

The Commission intends to publish a full report in the autumn, following consultations with the industry.

Italy still backs Amato in EBRD leadership contest

By Robert Graham in Rome, John Ridding in Paris and Anthony Robinson in London

THE Italian government yesterday denied that the 12 EC nations had agreed that Mr Jacques de Larosière should head the European Bank for Reconstruction and Development and said Italy was still backing the candidature of Prof Giuliano Amato, the former prime minister.

According to Italian officials, the government is anxious to see Italy play a more prominent role in international institutions and has decided to press the point following the resignation of Mr Jacques Attali.

In pushing Prof Amato's candidature, the Italian government has also pointed out discreetly that France already occupies sufficient top positions in European and international organisations. The German government has been sympathetic to the Italian view, but is motivated by its need to secure French support for siting of the future European central bank in Germany.

In Paris, the French government yesterday expressed confidence that Mr de Larosière, the governor of the Bank of France, would be selected by the EC as its candidate to head the EBRD, despite signs that a consensus had not yet been reached. "We remain sure that he is the best candidate for the job," said a spokesman at the foreign ministry in Paris. "We are sure that he will be the EC's candidate." French officials have been lobbying hard for Larosière's selection.

The Italians, angered by what they see as the over-hasty action of the Belgian finance minister in sending a letter to EC governments on Wednesday night announcing that a consensus had been reached, are continuing their diplomatic offensive.

Balladur in pledge to urban poor

PRIME Minister Edouard Balladur yesterday set in motion an ambitious plan to eradicate squalor in bleak housing estates surrounding major French cities, Reuter reports from Paris.

A day after a walkabout in a deprived suburb north of Paris, Mr Balladur pledged FFr5bn ($850m) to upgrade living conditions for France's urban poor. The funding is to be financed by an unexpected windfall from the government's "Balladur bond" issued earlier this month.

A further FFr9.6bn will be spent to upgrade housing, build new roads and provide basic public services, he said.

Seven samurai defer to Hosokawa

WHEN THE seven samurai, Japan's seven opposition party leaders, gathered yesterday, it was appropriate that they deferred to Morihiro Hosokawa, scion of a feudal ruling clan and still sometimes called "my lord" by his loyal constituents.

Mr Hosokawa, 55, has struggled to turn his cultivated elegance into a party political personality, but one reason for his appeal is the obvious difference between a self-consciously thoughtful individual and the abrasive confidence of many other Japanese politicians.

If all goes according to plan in the next few days, Mr Hosokawa will become prime minister, but he will take office having explained little about his political ideas, other than that he wants "reform" and a "new way of political thinking."

His stay in office could be short, as the seven samurai are a strange mix of people and ideas, and could fall out permanently over issues ranging from a rice market opening to nuclear power development. They issued a vague statement yesterday, which was general enough to keep all happy but resolved none of their disagreements on policy detail.

In the end, Mr Hosokawa was preferred to Mr Tsutomu Hata, the leader of the Japan Renewal party, supported by several opposition parties, but thought to have uncomfortably close ties to the Liberal Democratic party. Mr Hata's defection from the LDP brought down the government, and his party is confident his turn as prime minister will come.

Inevitable comparisons were being made yesterday between Mr Hosokawa and his grandfather, Prince Fumimaro Konoe, prime minister from 1937 to 1939, and again from 1940 until just before the attack on Pearl Harbour in 1941. Prince Konoe had thought himself capable of containing the Japanese military, but overestimated his powers of influence and underestimated the consequences of aggression in China that he had approved.

Having formed the Japan New party only a year ago, Mr Hosokawa has been carried quickly by circumstance to within reach of the leadership. But he has taken time to mature politically, beginning his career as a journalist on the left-leaning Asahi Shimbun, where he had the bracing experience of being taken hostage by student activists.

In 1971, representing the LDP, he was elected to the upper house of the national parliament and was re-elected six years later, serving as a member of the faction run by Mr Kakuei Tanaka, the former prime minister. Mr Hata's JRP is an extension of the Tanaka faction, and when many Japanese want "political reform," they mean an end to the rough and ready, money-fuelled Tanaka-style politics that has dominated the LDP.

Mr Hosokawa will take office having explained little about his political ideas, writes Robert Thomson

Mr Hosokawa switched to local politics in 1983, when elected governor of Kumamoto prefecture, in the south, where he enhanced his family's reputation as the local version of royalty. He is an 18th generation Hosokawa and keeps up the regal image, and his distance from mere politics, by playing tennis with members of the Imperial family

Encouraged to take a third term in 1991, Mr Hosokawa declined, saying that politicians are corrupted if they remain in the same powerful job for too long. As governor, he once suggested the water be turned off in central Tokyo so that politicians and bureaucrats would better appreciate the need for decentralisation, a favourite theme of most provincial leaders.

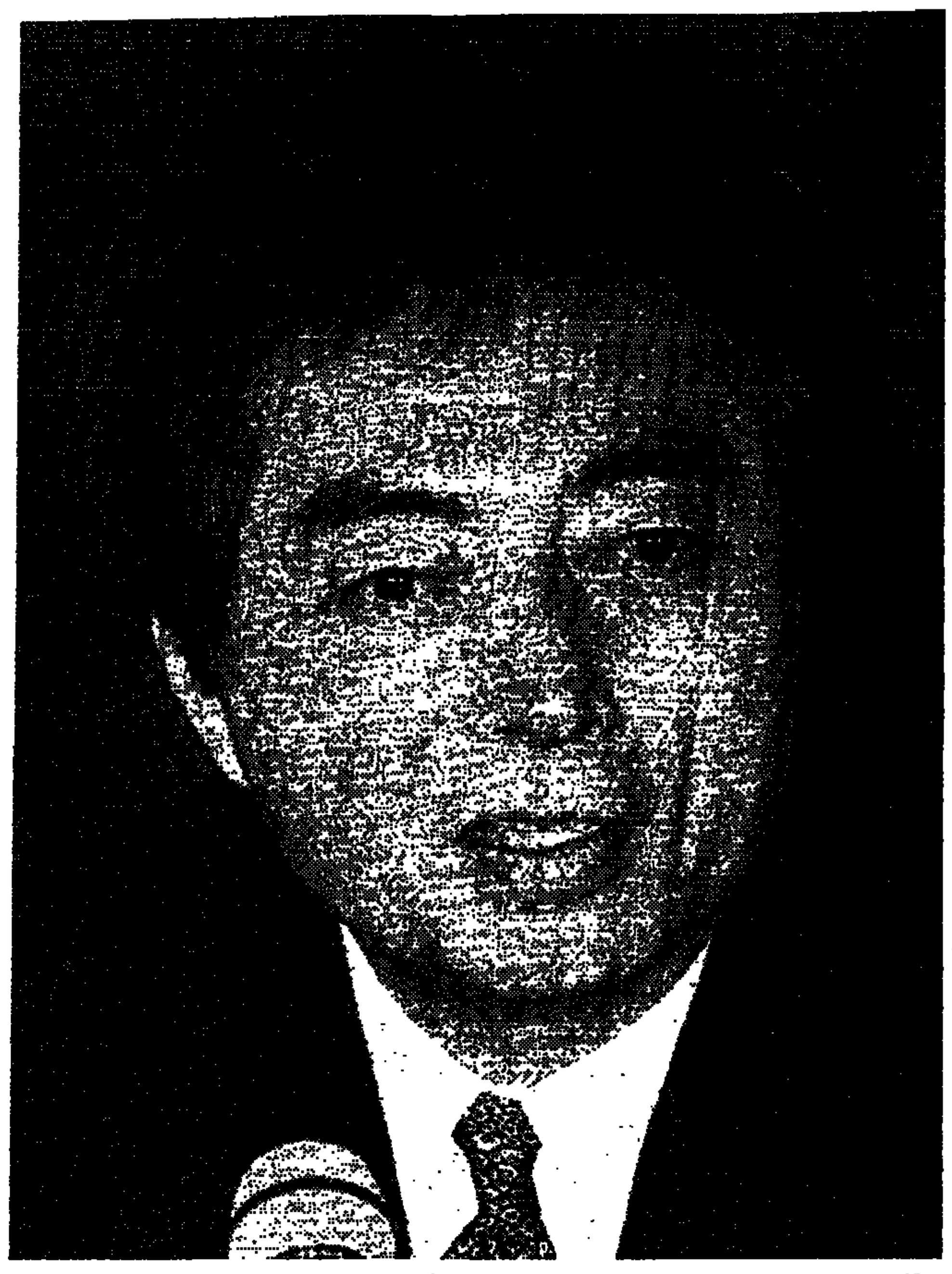
But Mr Hosokawa was generally regarded as a mild man of considered opinions. The gentleman politician's renewed interest in national politics is best explained by his wife, Kayoko, who said he inherited high standards of personal discipline from a family tutor who liked to berate him with: "How can you become the head of a samurai family?"

"At this point in his life, he doesn't really have any ambition for honour or power or success. The motivation to become a politician is not that he wants to be a great man, but that he can see a mission created for him by history," Mrs Hosokawa explained.

The problem with Morihiro Hosokawa is that he has not been able to explain the mission apparently motivating him, though supporters say a detailed explanation could lead to the collapse of his coalition. The past few weeks have shown that he does have fine political timing, as he let other parties call him to the leadership and left open the possibility that he would join the LDP in a coalition.

Mr Hosokawa's priority is political reform, but even his coalition partners have private reservations about the proposals they publicly support. When the serious talk starts, he will face the possibility of a quick split and a new election.

Like his grandfather, Mr Hosokawa could find that he has overestimated his political skills, in this case by underestimating the difficulty of controlling a coalition including socialists, the religious right wing, and a few hardened ex-LDP backroom operators who have their own ambitions.



Associated Press

Morihiro Hosokawa: accepted candidacy as PM in a meeting of the seven coalition parties yesterday

Coalition to push hard for reform

By Robert Thomson in Tokyo

DOCUMENTS intended to outline the policies to be pursued by the coalition of parties aiming to form Japan's next government yesterday provided clues to some of the issues which could easily divide them.

In putting together the policy statements, the seven parties from the lower house, plus one pro-reform grouping from the upper house, were careful to pay respect to the sensitivities of each member and use language vague enough to keep everyone happy.

The coalition members are the Social Democratic party, the Japan Renewal party, the Komeito, the Japan New party, the New Harbinger party, the Democratic Socialist party, and the United Social Democratic party. They were joined by the Democratic Reform party, an upper house group, which will not vote for the prime minister.

Their policy agenda began with an all-embracing, idealistic agreement affirming their intention to push for political reform by the end of this year, and made clear that there will be no sudden shifts in foreign or economic policy. They are in favour of peace, market forces, and safe food and energy supplies.

More interesting is the fine detail further down in their accord, which promises a "people-oriented" budget next year, as well as the decentralisation of government functions, a pet policy of Mr Morihiro Hosokawa, the JNP leader and a former provincial governor, who is annoyed by the concentration of resources in Tokyo.

The parties agreed to discuss an income tax reduction, which is already on the discussion table, and to co-operate with other nations in solving international trade imbalances through "market-oriented economic rules," a reference to the US pressure on Japan to reduce its large and growing trade surplus.

While supporting a resolution of the Uruguay Round of multilateral trade talks, the parties declare they are opposed to the opening of Japan's rice market, one of the still unsettled agricultural issues and of particular interest to politically influential farmers' groups.

However, Mr Hosokawa, as well as senior members of the JRP, have argued in favour of rice imports, and the policy appears to have been included to ensure the support of the SDP, the largest opposition party, which is against liberalisation. Trade reformers in the JRP may be counting on a collapse of the coalition before a Uruguay Round agreement.

The SDP had also opposed participation in the UN peace-keeping operation in Cambodia, but has relented for the sake of the coalition, which says Japan should "co-operate in UN-led international peace-keeping operations". The parties also plan to "pursue the reform of the UN," presumably including a permanent seat on the UN security council.

A coalition government would want to "reform the education system" and make Japanese children "individualistic and independent."

Foreign ministry officials expressed concern that a coalition government would be unable to react quickly to an unexpected crisis. There was also concern at the ministry that the parties would want to freeze or cut defence spending if they are in charge of preparing the next budget. Another foreign ministry official said the coalition will have difficulty dealing with tough trade requests from the US.

Officials at the finance ministry expected no substantial changes in budgetary or taxation policies by a coalition, and are reassured that Mr Tsutomu Hata, JRP leader, is a former finance minister.

Coalition's policy accord

- Reform of the political system by the end of the year, including the introduction of system of single-seats and proportional representation, as well as tougher punishment for corruption and a ban on corporate donations
- Strengthen Japan's international profile by playing an important role in the quest for peace and disarmament by honouring existing basic policies on diplomacy and defence
- Base economic policies on market forces, and maintain co-operation with other countries in a stable development programme; take responsibility for strict safety controls on food and energy generation
- Show remorse for involvement in the (second world) war, and show willingness to promote peace in and development of Asia and the world
- Encourage development of a lively, welfare-minded, and cultured society

S Korean group's break-up 'illegal'

By John Burton in Seoul

SOUTH KOREA'S constitutional court yesterday ruled as illegal the government's 1985 dissolution of the Kukje group, then the country's seventh largest conglomerate.

The decison could have widespread implications for relations between Korean industry and the state.

The forced dismantlement of Kukje was part of an industrial restructuring programme in the mid-1980s by the government of President Chun Doo-hwan, the country's former military dictator. Almost 80 financially troubled private companies were merged, liquidated or sold by government order.

The court ruling is likely to set the stage for extensive legal battles as Mr Yang Chung-mo, the Kukje founder, and other owners try to recover confiscated assets that were distributed to other industrial groups.

The court, acting on an appeal filed by Mr Yang, declared that Mr Chun's actions were an arbitrary use of presidential powers.

When Kukje encountered financial difficulties in late 1984, President Chun refused to allow Korea First Bank, the group's main bank, to provide new loans to rescue it. Instead, Kukje was declared bankrupt in February 1985 and divided up, with its 20 subsidiaries sold to other companies.

Kukje's leading footwear business and trading operations were transferred to Hanil Synthetic Fiber. Kukdong Construction acquired Kukje's securities subsidiary, which is now Dongsuh Securities, one of Korea's biggest brokerage firms. Union Steel Manufacturing, the nation's largest producer of cold-rolled steel sheets, was sold to Dongkuk Steel Mill.

The Chun government justified its action by arguing that Kukje's problems resulted from over-expansion and poor management. But when parlia[illegible]tigation after Mr Chun lost power in 1987, it was told that Kukje's dissolution was caused by Mr Yang's refusal to give political donations to the president and his party.

Mr Yang said yesterday the ruling "has paved the way for me to rise again as a businessman and I will rebuild the Kukje group."

The Federation of Korean Industries welcomed the court's ruling, which represents a psychological victory for Korean conglomerates, or *chaebol*, in their relations with the government.

Japanese industrial output falls 5.1%

By Gordon Cramb in Tokyo

INDUSTRIAL production in Japan is in its longest ever downturn, figures from the Ministry of International Trade and Industry showed yesterday.

Output in June fell 5.1 per cent year-on-year, its 21st successive month of decline. The previous record stretch was 20 months from May 1974 to the end of 1975. The economic environment which will be inherited by whichever government is formed in the coming weeks is thus the gloomiest for nearly a generation.

The latest fall was the worst since February, when a 5.8 per cent annual fall was recorded. It bears out a warning earlier this week by Mr Osamu Takatori, director general of the Economic Planning Agency, that recent data appeared to give the lie to earlier assumptions that the corner had been turned.

For the second quarter as a whole, industrial production was down 4.5 per cent from the same period of 1992 and 1.7 per cent below that of the first three months of this year.

On a month-on-month basis, though, seasonally adjusted output for June emerged 1.3 per cent higher, the first rise since March, when a 2.5 per cent upturn was followed by two months of downward movements.

Shipments rose 2.1 per cent in the month but, reflecting the amount of destocking of goods still in the pipeline, inventories rose 0.4 per cent for a second successive monthly rise. Compared with a year earlier, the reining back of supply and demand meant inventories were down 4.9 per cent and shipments off 4.8 per cent.

Budget to halve Zimbabwe deficit

By Tony Hawkins in Harare

ZIMBABWE'S finance minister Bernard Chidzero yesterday presented a deficit-cutting budget designed to satisfy the country's World Bank and IMF creditors.

By containing spending increases to under 10 per cent while projecting a 23.5 per cent rise in revenue, Mr Chidzero was able to promise that the deficit will be halved in the current year to June 1994 to 5.4 per cent of GDP from 11 per cent in 1992/3.

Substantial savings were possible with the reduction in drought relief expenditure and the cut in subsidies from more than Z$920m (£93.9m) last year to Z$272m in 1993/4. Drought relief assistance is down to only Z$50m from Z$300m last year.

Despite a 14 per cent rise in defence spending and increases of 12.6 per cent in education and 9 per cent in health, the budget deficit is projected to fall from Z$3.4bn last year to Z$2.1bn in 1993/4. This assumes a rather stronger recovery from drought and recession than generally forecast in the private sector.

Mr Chidzero is predicting 4 per cent growth in GDP this year, which private sector economists regard as hugely optimistic, especially in the wake of the publication this week of official figures showing that industrial production fell by more than 22 per cent in the first five months of the year while mining output was down 2 per cent in the first quarter.

Surprisingly too, in a budget which provides very little new information on the state of the economy, Mr Chidzero makes no mention of the deepening crisis in the tobacco and beef industries.

Government spending is forecast to fall to 38 per cent of GDP from 44.6 per cent last year while revenue will be little changed at around 33 per cent of GDP. As expected Mr Chidzero reduced the top rate of personal income tax to 45 per cent from 50 per cent, applicable to people earning over Z$48,000 a year while the corporate tax rate is cut to 40 per cent from 42.5 per cent.

The main tax increase is the expected 28 per cent rise in petrol duty, though the actual price increase is likely to be somewhat greater because distributors have also been promised an increased operating margin. Duties on beer and cigarettes have been raised while, to protect the domestic industry, duty increases have been imposed on imported wines and spirits.

The budget has been welcomed by the business community but economists have been quick to point out that it rests on two very fragile assumptions – that the recovery from drought and recession will be much stronger than widely forecast and that the government, in the run-up to elections due in 18 months' time, can impose a 10 per cent cut in real public spending.

AZT 'effective on Aids'

By Paul Abrahams

AZT, the controversial treatment for the Aids-causing virus, HIV, is effective in slowing progression to Aids, according to a large-scale study published yesterday in The New England Journal of Medicine.

The study appears to contradict another trial, the Anglo-French Concorde study published earlier this year, which called into question the effectiveness of the drug in HIV-positive patients who had not developed the disease.

AZT, also known as Retrovir, and manufactured by the UK pharmaceuticals group Wellcome, remains the only treatment licensed for HIV-positive patients without symptoms.

The new trial compared the drug with a placebo on 993 asymtomatic patients for an average of two and a half years in Australia and Europe. All patients had a CD4 cell count – a measurement of the immune system's strength – of above 400. A normal level is more than 1,000.

The trial showed that, compared with those on the placebo, the CD4 counts of those on AZT were half as likely to develop Aids or Aids-related diseases or to suffer a deterioration in CD4 cell counts below 350.

In an editorial about the most recent trial, The New England Journal of Medicine concluded: "The results show a statisticly significant advantage with early therapy and good tolerance of zidovudine [AZT]. . . The implication is that most patients should be treated, but the benefit may be greatest if therapy is begun when CD4 cell counts are over 300 to 400."

The Concorde study took a broad range of asymptomatic patients, many of whom had CD4 cell counts well below 400 and some as low as 200. It may be that AZT is less effective in such patients.

The new trial supports earlier studies suggesting AZT is effective and contradicts the Concorde programme. Wellcome has maintained the preliminary conclusions of the Concorde trial, the full results of which have yet to be published, suffered from statistical problems.

Demjanjuk acquitted

ISRAEL'S Supreme Court yesterday acquitted John Demjanjuk of being the sadistic "Ivan the Terrible" who operated gas chambers at the Nazi Treblinka concentration camp in the second world war, writes David Horovitz in Jerusalem.

Documentation from other Treblinka guards obtained after Mr Demjanjuk was convicted and sentenced to death in 1988 cast "reasonable doubt" on the evidence identifying him as Ivan, the five Israeli judges concluded unanimously.

The former Treblinka guards identified Ivan the Terrible as Ivan Marchenko, an older, darker man than Mr Demjanjuk. The court was persuaded, however, that the Ukrainian-born Mr Demjanjuk, extradited from the US in 1986, had been an SS guard at Sobibor and other concentration camps but chose not to convict him since they were not included in the original indictment and since he had not been given adequate opportunity to defend himself.

Mr Demjanjuk heard the ruling without obvious emotion. His son, John Jnr, by contrast, pronounced himself "absolutely delighted" and said he would ask the US authorities to allow his stateless father to return to the family home in Cleveland, Ohio.

Treblinka survivor Mr Josef Czarny, who testified against Mr Demjanjuk at the original trial, said after the ruling that he was still convinced Mr Demjanjuk was "the arch murderer of Treblinka" and that the acquittal was "a terrible mistake."

The case is bound to have implications for other war crimes investigations because of the doubts it casts on reliability of eye-witness evidence 50 years after the second world war.

Nigeria ails beyond the public eye

WHILE Nigeria's government has been absorbed by the political chaos following the June presidential elections, the economy has been sliding deeper into crisis.

The drop in the oil price last week, to around $16.50 a barrel, is a warning to President Ibrahim Babangida, or his successor, that Nigeria's oil exports cannot resolve a growing balance of payments deficit.

"What worries me most is the complete lack of direction in economic policy," said the head of one Nigerian bank.

The military regime hoped to find that direction in January by creating a civilian Transitional Council to inject life into a structural adjustment programme, which has failed to impress the international creditors and has earned the contempt of most Nigerians.

Mr Ernest Shonekan, a leading industrialist who heads the Council, delivered a 1993 budget in January based on three expectations that have not been met: tight control on government spending; a debt relief agreement with Nigeria's official creditors; and a minimum oil price of $17.50

"The lack of fiscal discipline is the bane of our economy," said Mr Shonekan in his budget speech. He proposed "greater fiscal co-ordination and a total clampdown on extra-budgetary releases" to cut the budget deficit to N28bn (£746m) in 1993.

The Central Bank of Nigeria (CBN) has yet to publish official figures, but bankers estimate that the budget deficit in the first quarter of the year alone reached N20bn, whilst the rate of inflation has accelerated well beyond the 46 per cent recorded for 1992.

Mr Shonekan also set up two committees to make government finances more open. However, "neither of these committees has made its findings public", said a western economist.

The failure to report on accounts which keep the revenue from an estimated 200,000 barrels of oil a day outside budgetary control has been one of several stumbling blocks in Nigeria's negotiations with the International Monetary Fund.

Economy suffers in political maelstrom, writes Paul Adams

During formal talks in May, the Nigerian delegation and a combined IMF-World Bank team failed to reach agreement over the oil revenue figures, the exchange rate policy, and a method to phase out the domestic fuel price subsidy.

The collapse of the IMF talks was a serious blow to the Transitional Council. An Enhanced Structural Adjustment Facility (ESAF) would provide soft loans and unlock a debt relief package from the Paris Club of official creditors, which is owed about $16.5bn by Nigeria, over half its external debt. If Nigeria qualified for the Trinidad Terms, over half of that debt could be wiped out.

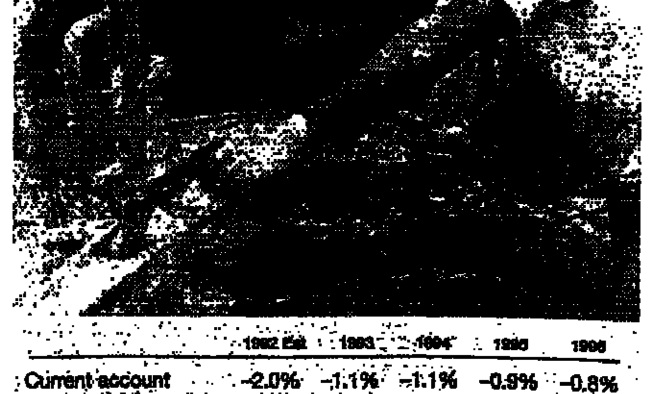
But a Transitional Council plan to remove the oil subsidy was overruled by the ruling military council, and the supply of foreign exchange from the Central Bank to the private sector has been just 10 per cent of funds required, which has widened the gap between the official and parallel market rates to 70 per cent.

"The IMF is not interested in a standby agreement, they want a three-year programme and they do not want to negotiate with a regime which has no track record and no future after August 27" – the scheduled handover date – said one western diplomat.

Arrears in debt service to the Paris Club topped $4bn this year and the budget does not provide for any interest payments on foreign debt, for which $2bn is due. Further evidence of Nigeria's insolvency came in March when the CBN suspended payments to foreign suppliers worth over $2bn, or nearly half this year's budget allocation of foreign exchange for imports. The CBN has still not announced how this backlog in payments is to be cleared, but there are inadequate foreign reserves to cover it.

"Whichever way they tackle it, these arrears are going to give a shock to the economy," said a leading banker. "If the bills are honoured, it will put heavy pressure on the exchange rate. If they default and issue promissory notes, it will damage Nigeria's credibility among foreign creditors."

Nigeria: debt scenario



	1992 Est	1993	1994	1995	1996
Current account balance/GDP	-2.0%	-1.1%	-1.1%	-0.9%	-0.8%
Debt service ratio	71.5%	38.5%	37.9%	37.5%	35.6%
Debt/GDP	113.2%	98.7%	85.5%	81.1%	76.2%
Oil price ($ per barrel)	19.58	19.47	19.82	20.31	20.82

Source: IMF scenario based on oil price assumptions in table

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S Korean group's break-up 'illegal'

By John Barton in Seoul

NEWS: THE AMERICAS

Brasília loses Battle of the Zeros

By Christina Lamb in Rio de Janeiro

BRAZIL's President Itamar Franco yesterday conceded defeat in the Battle of the Zeros and signed a decree cutting three noughts from the country's inflation-battered cruzeiro, changing its name to the "real cruzeiro".

The move comes as a relief to a population whose mental skills have been stretched to the limits by the present exchange rate of about 75,000 cruzeiros to the dollar. The digits involved in even basic sums do not fit on calculators, causing havoc in the financial sector.

Even the low paid are receiving monthly wage packets in millions of cruzeiros; a Big Mac hamburger costs Cr200,000, a basic television Cr30m and buying the cheapest new car requires well over Cr1bn.

The announcement, signalling the fourth currency change in seven years, came as a surprise. Mr Franco has always been firmly against the idea, once saying: "The last thing poor Brazilians need is to see their money devalued". He even sacked his last but one finance minister in February for having the audacity to announce that he wished to cut three zeros from the currency.

Since then the president has presumably been won over by the central bank, which long ago ran out of famous Brazilians to put on bank notes, resorting to Amazonian fishes (there are 2,000 varieties).

As news of the change spread yesterday, critics accused the government of cosmetic measures to disguise inflation, which is forecast to top 34 per cent a month in August. The main television channels ran warnings that the removal of three zeros from prices did not mean the items had become cheaper.

Unlike previous changes the announcement of the new currency is not to be accompanied by an economic shock package or banking holiday, both of which have become taboo following the failure of previous economic plans.

However, the new real cruzeiro, following the country's economic Truth Plan announced in May, could prove to be an unfortunate choice of name. There is no sign of economic stability despite the best efforts of Mr Fernando Henrique Cardoso, the new finance minister.

With presidential and congressional elections due next year the national mint is likely to be busier than ever.

The changes to the currency are due to come into force on Monday. The Cr5m note, due to appear in September and decorated with a nameless cowboy, is expected to be scrapped.

But with inflation running at 1,500 per cent a year and rising, it should not be too long before Brazilians are all big-spending millionaires once again.

Loan loss provisions hit profits for World Bank

By George Graham

THE World Bank has reported a sharp drop in last year's profits as a result of higher provisions against the risk that loans to the former Yugoslavia would not be paid back.

Net income fell to \$1.13bn (£750m) for the year ending June 30, against \$1.65bn the previous year, after the bank increased its loan loss provisions by \$610m to \$3.15bn.

The bank announced in May that it would increase its loan loss provisions from 2.5 per cent of loans outstanding to 3 per cent, citing "a deterioration in the outlook for the collectibility of loans to, or guaranteed by, the Federal Republic of Yugoslavia and the Republic of Bosnia-Hercegovina".

Yugoslavia was one of the World Bank's biggest borrowers, with \$2bn of loans outstanding last year. While Croatia and Slovenia are paying their portions of this debt, Serbia-Montenegro, Bosnia and Macedonia are not.

Bad debts from these three republics, together with those of Congo, Iraq, Liberia and Syria, amount to 2.4 per cent of the World Bank's outstanding loan portfolio.

The bank also increased its target ratio of reserves to loans from 11 per cent to a range of 13-14 per cent over the next two fiscal years. At the end of June its reserves amounted to \$11.7bn, or 11.4 per cent of loans.

While the World Bank is not a conventional profit-seeking corporation, its net income is important to its financial solidity, which enables it to borrow in the capital markets at keen rates.

It also provides part of the money for the International Development Association, the subsidiary which offers low cost loans to the poorest countries.

Reuter

President Bill Clinton is joined in Washington by a group of executives from leading US companies in a show of support for the president's package of tax increases

Gaviria pins hopes on oil

By Ken Warn

RISING oil revenues could push Colombia's economic growth from last year's 3.6 per cent to an annual 5-6 per cent, President César Gaviria said yesterday.

Mr Gaviria, on a three-day official visit to Britain, suggested that if the country made progress in its fight against political and drugs-related violence, "growth through the rest of this decade will be even higher".

The president is pinning his hopes for higher growth on the Cusiana and Cupiaga oil fields, in Colombia's eastern Andes. The fields are being jointly developed by BP, Total, Triton and Colombia's state-owned Ecopetrol.

BP has estimated production will reach 150,000 b/d by the end of 1995, but a second stage of development could take output to 600,000-800,000 b/d in 1998, a prospect Colombian officials greet with barely concealed excitement.

Colombia now produces about 450,000 b/d of crude, exporting some 180,000 b/d.

Mr Gaviria said his country was able to deal with the potentially inflationary consequences of soaring oil revenues, and stressed the independence of the central bank.

Earlier in his trip, aimed principally at boosting trade and British investment in Colombia, he signed an agreement with Mr John Major, the British prime minister, to co-operate on confiscating proceeds from drug trafficking.

The agreement would commit both countries to trace, seize and confiscate drug assets, according to a British official. However, a hoped-for investment protection accord between Colombia and the UK failed to materialise.

NY judge dismisses Altman charges

By Patrick Harverson in New York

US GOVERNMENT attempts to prove that Mr Robert Altman helped the now-collapsed Bank of Commerce and Credit International gain illegal control of a US bank were dealt a blow yesterday when a New York judge dismissed four of the eight criminal charges against the prominent Washington lawyer.

Judge John Bradley of the New York state supreme court did not explain why he dismissed the charges, which included the most serious count of bribery. The move came in response to a call from Mr Altman's lawyers for a dismissal on the grounds that federal prosecutors had failed to prove the lawyer had received bribes from BCCI.

The prosecution had alleged that during the 1980s Mr Altman participated in a conspiracy to allow BCCI illegally to acquire First American Bankshares, Washington's biggest bank. Mr Clark Clifford, a former US defence secretary and leading figure in the Democratic party, was indicted on the same charges last year but was deemed too ill to stand trial.

During the four-month trial prosecutors argued that Mr Altman and Mr Clifford, who were senior officers of First American, acted as "front men" for BCCI, which secretly controlled the Washington-based bank.

The two lawyers were accused of accepting millions of dollars of bribes from BCCI in the form of loans, share profits and legal fees.

Although yesterday's dismissal is a victory for Mr Altman, he still faces four counts, including charges that he schemed to defraud regulators by submitting false documents.

His defence team began its presentation yesterday, and is due to conclude by August 9.

The indictments against Mr Altman and Mr Clifford were filed in July last year.

Senate wrangles hit National Service scheme

By Lisa Bransten in Washington

PRESIDENT Bill Clinton's National Service plan has run into trouble in the Senate with Democrats unable to break the Republican will to prevent a vote on the measure.

The House of Representatives this week passed Mr Clinton's plan to create a domestic version of President John Kennedy's Peace Corps, whose participants would also earn money towards higher education.

In the Senate, however, the plan has fallen victim to the partisan wrangling that has plagued many of the president's proposals.

The Democrats have a 54-seat majority in the Senate, but need 60 votes to cut off debate and force a vote on the measure. Five Republicans voted with the majority, leaving the Democrats one vote short.

The House agreed on Wednesday evening to Mr Clinton's plan to grant \$5,000 a year in educational benefits in return for community service work, with a handful of Republicans joining the Democratic majority. But it scaled back the educational stipend to \$4,725.

"National service is a bipartisan concept... and it is a shame to have it treated like a political football," said Mr Rick Allen, deputy director of the White House's Office of National Service.

Some Republican senators, led by Ms Nancy Kassebaum of Kansas, support the concept of national service, but believe the president's plan is too expensive. The White House has been seeking a compromise with her, so far without success.

The president's plan calls for \$394m for fiscal 1994 with no set spending amounts for the next four years.

Mr David Durenberger, a Republican senator, and Democratic Senator Edward Kennedy introduced an alternative plan that scaled the programme back to three years and set spending at \$300m for the first year and \$500m and \$700m for the next two years. Ms Kassebaum believes spending should be limited to \$200m in the first year and \$400m and \$600m for the next two.

If the White House were to win Ms Kassebaum's support she would probably be followed by enough Republicans to overcome the filibuster.

There are, however, a number of Republicans who seem prepared to block passage of the bill at any cost. Senator Phil Gramm of Texas, for example, cites the programme as an example of "tax-and-spend" politics of Democrats and the president who are not doing enough to fight the deficit.

"It doesn't have to do with Clinton having victories, it has to do with the number one problem in the country," said Mr Larry Neal, a spokesman for Mr Gramm.

Ginsburg on course

THE US Senate judiciary committee yesterday unanimously approved the nomination of Judge Ruth Bader Ginsburg to be the second woman to serve on the Supreme Court and sent it to the Senate for final action next week, Reuter reports from Washington.

The vote was 18-0 to approve Judge Ginsburg, a 60-year-old federal appeals judge from the District of Columbia.

The full Senate is expected to confirm her before the start of the congressional summer recess on August 6 as the nation's 107th Supreme Court justice and its second woman member. Justice Sandra Day O'Connor joined the court in 1981.

Judge Ginsburg was nominated on June 14 by President Bill Clinton to replace Justice Byron White, who retired at the end of the court's last term.

The high court's next term begins on October 4.

NEWS: WORLD TRADE

Nafta ministers hunt for consensus

By Nancy Dunne in Washington

THE trade ministers of the US, Canada and Mexico yesterday gathered in Washington to begin their final attempt to resolve differences over enforcement of labour and environmental laws and mechanisms to finance the costs of the North American Free Trade Agreement.

Mr Thomas Hocking, the Canadian trade minister, said before beginning talks with his counterparts – Mr Mickey Kantor of the US and Mr Jaime Serra Puche of Mexico – that the three would have to meet next week to finish the supplemental agreements designed to protect jobs and the environment and to guard against import surges.

On Capitol Hill, there were further signs yesterday that Nafta is in political trouble. There were reports that the Clinton administration had rejected proposals for a "Nafta plus" package, which would include the side pacts and a North American Development Bank. Plans to announce a "Nafta czar" to press the agreement through Congress have also been delayed without explanation.

The National Economic Council is said to have opted for a two-track policy, creating both a commission to implement clean-up and water treatment projects, and a funding entity in the Inter-American Development Bank to provide financing.

Supporters of the so-called NADBank include many Democrats who otherwise oppose Nafta. Among them is Congressman Esteban Torres, who said he was "appalled the administration is shooting itself in the foot" by rejecting the idea of an independent development bank, which would loan funds to communities in all three countries damaged by the restructuring of the job base in North America.

Rarely a day passes without opposition being voiced against Nafta. On Tuesday 100 Democratic congressmen wrote to President Bill Clinton requesting that he delay Nafta until healthcare reforms are completed.

On Wednesday Congresswoman Marcy Kaptur and several other colleagues released data showing that soil and water samples they had taken on a visit to the US-Mexican border were contaminated with industrial pollutants.

The Institute for Policy Studies, a progressive think-tank, issued this week an analysis of 34 companies which have set up lobby efforts in the US. The report said at least nine of the companies had shipped thousands of jobs to Mexico and 10 of them were among the top 30 US polluters.

Mickey Kantor: final assault

ABB eyes Russian power venture

By Andrew Baxter

ASEA BROWN BOVERI, the Swiss-Swedish engineering group, is in talks which could lead to it becoming the first western company to produce power plant from a former Russian defence factory.

ABB confirmed this week it was in joint-venture discussions over the future of a Russian defence and aero-engine factory, although it declined to say where the factory was or with whom it was negotiating.

It added it was talking to a number of possible partners about joint ventures in Russia.

The Zurich-based company is known to be considering developing local production of power plant in Russia. Use of a former defence and aero-engine plant could enable it to produce equipment such as gas turbines for the local market.

ABB is keen to sell combined-cycle gas turbine plants in Russia, which many observers believe would be a better option for Russia, with its abundant gas supplies, than modernising its nuclear power stations.

Other western power equipment manufacturers have ventures in Russia, but not with defence factories. Siemens of Germany has a joint venture with Leningrad Metal Works, a St Petersburg steam turbine producer. The venture, Interturbo, will develop and manufacture gas turbines for the Russian market and eventually for export.

GEC Alsthom, the Anglo-French engineering group, signed a co-operation agreement in 1991 with the Kirov Works, another St Petersburg steam turbine producer. The deal covers the manufacture, assembly and packaging of 25MW gas turbines for the Russian market.

ABB has in recent years placed greater emphasis on expansion in eastern Europe – particularly Poland, the Czech and Slovak republics and Hungary – and views Russia as a long-term opportunity.

Treuhand extends coal field deadline

By Judy Dempsey in Berlin

AN Anglo-American consortium which is poised to buy east Germany's giant Mibrag brown coal fields has been granted an extension of the sole negotiating rights by the Treuhand agency charged with privatising east German industry.

The Treuhand, which owns Mibrag, granted Powergen, the British-based utilities company, and NRG of Minneapolis, a subsidiary of Northern States Power Company, the sole negotiating rights until July 31, but will agree to extend them for another few weeks for "technical reasons".

A banker involved in the negotiations said yesterday that the contract was in its "final stages. This is an enormous contract. The lawyers are working flat-out" to complete it.

The contract, which entails the consortium buying the lignite fields, which straddle the eastern states of Saxony-Anhalt and Saxony, is also linked to its purchase of a 44 per cent stake in the Schkopau power generating plant near Leipzig. The acquisition of the power plant will give the consortium a stepping stone into the utilities sector in east Germany, which is monopolised by west Germany's three large utilities. It is expected to pay DM1bn (£390m) for the mines.

Veba unit brokers Russia barter deal

By Ariane Genillard in Bonn

MEDIUM-SIZED German mining equipment manufacturers, fighting for their survival as Germany reduces its domestic coal production, have set up a consortium to sell mining equipment in Russia. The barter deal has been brokered by Raab Karcher, the diversified trading arm of Veba, the west German energy group.

Raab Karcher, which had a 1992 turnover of DM10.5bn (£4bn), recently signed a contract to import 350,000 tonnes of hard coal from the Karagandaugol mine in Kazakhstan.

Proceeds from the sale of coal – to be marketed mostly in Germany, England and France – will partially go toward repaying the German enterprises delivering mining equipment in Russia.

The deal, which will be in part financed by subsidies from the state of North Rhine-Westphalia, aims to give a second life to small mining equipment producers by opening new markets in east Europe.

Manufacturers of coal mining equipment and spare parts are struggling to cope with falling orders as German mines reduce hard coal capacity from the current 65.5m tonnes output to an estimated 50m tonnes by the year 2005. Germany hopes to replace its expensive local production with cheaper imports.

Athens acts on airport

THE Greek government has selected a German consortium led by Hochtief to build and operate a new airport for Athens in a Ecu2bn (£1.51bn) project, due to be completed by 1998, Kerin Hope reports.

The Hochtief consortium will cover 65 per cent of the financing, with Greece contributing the remainder through an Ecu400m grant from the EC and an airport departure tax.

Linde venture

Linde, the world's largest lift truck producer, is forming a joint venture to produce lift trucks in China from a factory to be built at Xiamen, Fujian province, Andrew Baxter writes.

The joint venture, with Xiamen Fork Lift Truck Plant, will produce about 20,000 lift trucks a year. It requires capital investment of about DM155m (£60.3m).

Telecom alliance

Belgacom, Belgium's state telecoms company, has announced a strategic alliance with Pacific Telesis of the US to build and operate the country's first digital cellular mobile network to the pan-European GSM standard, Andrew Adonis reports.

Japanese brewer gets rid of Chinese froth

Robert Thomson on making a joint venture work

外商投资

Foreign investment

WHEN Kenzo Yanagi arrived at the Chinese city of Lianyungang to take control of Japanese brewery Suntory's joint venture producing a brew called Flower Fruit Mountain Beer, a brand inspired by a Chinese fairy tale, he recommended an important shift in marketing strategy – change the name.

"It was a bit rural. We needed something that reflected a modern Chinese sensibility," said Mr Yanagi. The venture was launched in 1984, but began producing profits last year after a decade of reforms to the management structure, the beer recipe and, as Mr Yanagi put it, the "workers' consciousness".

Hoping to flood the Chinese market with Flower Fruit Mountain Beer and earn foreign currency from exports, the hardened joint venture partners now have clearer goals. Their beer has a 95 per cent share of the market in the area around Lianyungang, a port city in Jiangsu province, and they are cautiously taking aim at Shanghai.

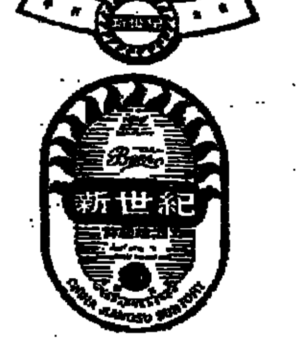
The Japanese company has a 50 per cent stake in China Jiangsu Suntory, capitalised at \$13m (£8.7m), sharing ownership with the Lianyungang Light Industry Bureau, which has 30 per cent. Two state investment bodies, the Jiangsu International Trust and Investment Corporation (Jitic) and the China International Trust and Investment Corporation (Citic), each have 10 per cent.

Sales last year rose almost 30 per cent, Mr Yanagi said, after the launch of two premium brands, New Century and Prince.

In the four years Mr Yanagi worked in Lianyungang, the brew was improved by replacing the barley used by the Chinese partners with imported materials and, later, with Suntory-developed barley from a farming venture in the area. In earlier years, the venture could not get permission to import materials and was stuck with the inferior product.

Suntory also experimented with the brewing process and swapped yeast types, but the big adjustment, Mr Yanagi explains, came with "consciousness". The company at first adopted a Japanese-style management system, intended to inspire workers with regular gradings, work targets, and peer pressure.

Mr Yanagi says the 400 workers found positive motivation from a different source – money: "We discovered that these Japanese-style gradings did not have such a good effect. But money is a very good incentive in China. A bonus system was developed so that about 60 per cent of earnings are now base salary and 40 per cent are in bonuses."



Having dealt with the workforce, Suntory needed to replace the Chinese senior manager who was a barrier to innovation. After the foreign partner's customary threats to withdraw from the venture, local Chinese officials found a spirits distillery manager who made useful suggestions instead of finding reasons why changes could not be made.

The eager new manager, working with Mr Yanagi, who returned to Tokyo last year, suggested the use of a 2-litre beer container, which has been a success. They also agreed to lift the bottle price of the two new beers from Yn1 (12 pence) to Yn1.50 for Prince and Yn1.80 for New Century, the prestige brew aimed at more affluent drinkers.

To encourage sales, the company produced a television advertisement showing fashionable young Chinese with Jiangsu Suntory on the table. An incentive scheme was devised for distributors, who are entitled to a free trip to Tokyo or Hong Kong if they meet sales targets.

But Mr Yanagi said competition was tough in China's beer market, and would get tougher with the expansion of other foreign joint ventures. Having refined the product, he is gradually expanding the target area: "We do very well in our area, but to the north (Shandong), you have Tsingtao beer, which is dominant. Beijing is a very difficult market – the city has 13 breweries."

Shanghai is more promising, prompting Jiangsu Suntory to sell through two hotels in the city, though the deals were a result of local *guanxi* (connections), and not drinkers discovering a superior brew. Nanjing, the capital of Jiangsu, has also been targeted, but there, as elsewhere, retail networks are greased by kick-backs and an honest operator can find doors difficult to open.

As for exports, there were trial shipments to the US, Singapore, Italy and Malaysia, but the quantities were small and the cost of marketing far greater than the returns.

"In contracts, the Chinese partner likes to put in a specific figure for exports. In our contract, we said that we would try to export as much as possible, but we did not make a specific obligation. We did not accept a target."

The depreciation of the yuan has created disagreement among the partners on valuations. The Chinese side insists on valuing the imported machinery in local currency, while the Japanese company wants it converted to foreign currency, believing that the worth is understated.

But the disputes are fewer than when Mr Yanagi arrived in Lianyungang: "It is very difficult to be clear about what will happen in China, but the beer market is not so bad. We are now making profits. I think we should extend the venture (expiring in 1999) for another 10 years."

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New law proposed to protect privacy

By Robert Rice and Raymond Snoddy

A NEW LAW giving people in England, Wales and Scotland the right to sue for damages up to £10,000 for invasion of privacy was put forward yesterday by the government.

A discussion document (green paper) on infringement of privacy says that the right to privacy should be recognised in law.

It proposes a new civil remedy allowing an individual to sue for any invasion of privacy which causes substantial distress.

Privacy would not be defined precisely but would cover a person's health, personal communications and family and personal relationships.

A range of defences would be available to the press, media, banks, credit agencies, government bodies and others accused of infringing privacy. These defences would include consent, lawful authority, absolute and qualified privilege as in defamation cases and a public interest defence.

The government does not intend to make legal aid available for privacy cases. The remedies would include damages up to a maximum of £10,000 and injunctions to prevent publication of material which would result in an infringement of privacy under the new law.

Launching the green paper yesterday Lord Mackay, the Lord Chancellor said after years of cross-party study, "the time has come to ensure that the law protects the privacy of everyone."

The proposals received a mixed response from the newspaper industry to which they are primarily addressed. Mr Andrew Neil, editor of the Sunday Times attacked them as "very dangerous proposals" which would "protect the privacy of politicians but neutralise robust journalism."

Sir Frank Rogers, deputy chairman of The Telegraph group and chairman of the Newspaper Publishers Association which represents national newspapers said the industry approach had been to accept that there were aspects of life that should remain private but that any legislation should apply to everyone.

Yesterday's consultation document has come out in advance of the associated policy document (white paper) on press regulation.

DEFENCE PROCUREMENT

MoD 'right' to award contract for ship to VSEL

By Daniel Green and Chris Tighe

VSEL Shipbuilding subsidised its winning bid for a Royal Navy ship in a competition against rival Swan Hunter, a government report said yesterday.

But the Ministry of Defence was right to give the contract to VSEL because the price gap between the two bids was much bigger than the subsidy, said the National Audit Office, the government spending watchdog.

Tyneside's Swan Hunter bid £71m more than VSEL to build the ship, a helicopter carrier, and called in the receiver when it lost the contract in May.

The NAO said the MoD estimated the level of VSEL's support at £25m to £30m on a £139.5m bid. But yesterday sources close to the Barrow-in-Furness company said the true figure was a little more than £10m.

Mr Noel Davies, VSEL's chief executive, defended the support. "We have recovered all our variable overheads and have made a contribution to fixed overheads. It's a contract which is better to have than not to have."

The report also contradicted allegations by politicians that the MoD had unfairly favoured VSEL. It said the MoD "treated both tenderers in a fair and even-handed manner."

Much of the £71m difference in the bids was the result of lower overheads at VSEL's civilian subcontractor, Kvaerner Govan on Scotland's River Clyde, it said. However, the NAO warned the MoD that if Swan Hunter closed, VSEL might have a monopoly over some types of shipbuilding.

Mr Roger Vaughan, former joint chief executive of Swan Hunter, said: "[Creating a monopoly] is not an approach to the defence manufacturing industry which is likely to lead to the maintenance of a defence manufacturing base."

Mr Alex Marsh, also former joint chief executive, said Swan Hunter had understood the MoD's budget was around £170m. He declined to comment on why, given this, the company thought a £210m bid might be acceptable.

The report said the MoD was aware VSEL might become a monopoly supplier of large warships if Swan closed but that it saw that savings from competition more than outweighed the cost of keeping a high level of competition.

"Overall, the MoD concluded that these problems could only be addressed in the context of individual procurements and not as part of an abstract wider strategy," said the report.

The NAO identified and potential risks on the programme and lessons for the future.

- The MoD, aware that Swan Hunter faced receivership if the award of the contract were delayed, accelerated its timescale and changed its approach. This risked failing to identify the most cost-effective solution, although the department believed this risk was outweighed by the benefits of ensuring effective competition.
- Because of the short timescales for the Best and Final Offers, the MoD was unable to carry out a full life cycle cost assessment of the two bids. "This has led to the Department carrying the downstream financial risk that the vessel could be more expensive to operate than originally envisaged," warns the report.
- The MoD's arrangements for merchant classification of the vessel, although refined during the course of competition, were not clearly spelt out in its initial contract documentation, leaving some risk.
- The MoD's approach to availability, reliability and maintainability meant it, rather than industry, bore the risk of achieving what it needed.
- While the department successfully transferred most of the financial risk to VSEL, through use of a fixed price, there remained a risk the total cost could rise if not tightly controlled.

Cabinet ministers Kenneth Clarke, Malcolm Rifkind, and Michael Portillo await the crucial by-election result at Christchurch

BT satellite role faces tighter scrutiny

By Andrew Adonis

THE SATELLITE business of British Telecommunications will be subject to more detailed regulation under proposals published yesterday by Oftel, the telecommunications regulator.

Under Oftel's plans, BT would have to publish a financial statement covering the activities of its division responsible for selling satellite capacity to rival operators.

The watchdog's proposals would also bar BT from seeking investment contributions from other operators.

Although the satellite business is not a high-profile BT division, the move marks a further extension of regulatory pressure by Oftel.

It follows a series of recent proposals to make the company more amenable to its competitors.

The review of existing arrangements between BT and satellite service providers concerns the provision of satellite capacity with INTELSAT and EUTELSAT, which are funded and operated by consortia of state telecommunications companies.

Three years ago BT established a "signatory affairs office" (SAO) to give independent satellite service operators access to capacity.

BT welcomed the plans to reduce direct contact with competitors, but said it needed to consider the implications of some of the regulatory proposals.

London mobile phone tariff battle nearer

By Andrew Adonis

THE long-awaited mobile telephone price war came closer yesterday, with the unveiling of tariffs by Mercury One-2-One, the new cellular mobile network due to be launched within the M25 (London Orbital Motorway) area within weeks.

One-2-One, a joint venture between Cable & Wireless and US West, will charge only two-thirds the price levied by existing operators for peak-rate calls made from phones on its new digital network. The discount on charges for calls to phones on the One-2-One network are likely to be still larger.

Vodafone, the leading mobile operator, is launching its own local digital service ("MetroDigital") this autumn. Its tariffs will be lower than those for its existing network, but still be more expensive than One-2-One.

Cellnet, the other operator, has yet to announce revised tariffs, but has indicated that reductions are on the way.

Piper Alpha witness loses damages hearing

A WORKER who witnessed the Piper Alpha oil rig disaster from a rescue vessel was not entitled to claim damages for the psychiatric injury he suffered, the Court of Appeal ruled yesterday.

Three judges overturned a High Court ruling that Mr Francis McFarlane, 45, a painter from Alloa, near Stirling, could claim because he had been in fear for his life and safety and the fear had caused the shock which led to his injury.

Mrs Justice Smith ruled last December that Mr McFarlane was a primary victim of the disaster, in which 164 died in July 1988, because of his closeness to it.

She held that Occidental Petroleum (Caledonia) – now EE Caledonia – the owner and operator of Piper Alpha, had owed Mr McFarlane a "duty of care" and was therefore liable to pay him damages. But yesterday judges ruled that she had erred. The ruling is likely to block at least 10 similar claims against EE Caledonia. An appeal is being considered.

Britain in brief

Lloyd's in fresh US court 'win'

Lloyd's of London claimed victory in another US court case involving pollution. The New Jersey Supreme Court reaffirmed two lower court decisions in favour of insurers in a case involving Morton International. Morton sued its insurers for the recovery of contamination clean-up costs at Berry's creek, New Jersey. Costs of the clean-up were estimated at $100m. Insurers had provided coverage between 1960 and 1975.

'Women's' jobs scrutinised

The Equal Opportunities Commission is to launch its first formal investigation into the practices of an employment agency, following a number of complaints from men alleging that they have been refused "women's" jobs with one agency.

The formal investigation into the Workforce Employment Agency, which is based in Halifax and has branches in Leeds and Bradford, was announced by the EOC. The commission said it had received complaints from men who alleged they had been refused jobs as packers. It was claimed the jobs had been advertised as being in "a predominantly female environment," said the EOC.

Editor's dual role to end

Andreas Whittam Smith announced he is stepping down as chief executive of Newspaper Publishing, publishers of The Independent and Independent on Sunday after nearly six years.

Mr Whittam Smith has combined the jobs of editor of The Independent and chief executive since early in the life of the publication.

"I have come to the conclusion that doing both jobs is bad for the company and bad for me," the founder of The Independent said.

Annual MoT faces test

The annual MoT car, van and motorcycle roadworthiness test, only recently stiffened to include cracked windscreens, exhaust emissions and cosmetic body corrosion, is to undergo a further review.

It will assess whether the test still provides value for money to motorists, as well as benefits to road safety and the environment, Mr Robert Key, Minister for Roads and Traffic, said yesterday.

BP Energy wins contracts

BP Energy, a division of British Petroleum, has won contracts for two combined heat and power projects and is negotiating a third – with a total value of £80m.

The company will build a CHP plant for Nestlé's Rowntree operations at York and for Chartham Papers, part of the Bowater group, near Canterbury. CHP plants generate electricity using waste industrial gases as well as recycling the heat from the generation process.

Girobank sale criticised

The House of Commons public accounts committee has criticised the department of trade and industry and the Post Office over the sale of the state owned Girobank in 1990 for £63m less than the book value of its assets.

The post office is also castigated for not seeking further bidders for Giroleasing – Girobank's corporate leasing and hire purchasing business which was sold separately to Norwich Union.

Progress at Canary Wharf

The administrators of Olympia & York Canary Wharf, the office development in the London docklands, have won the approval of the High Court to put together an arrangement that could take the project out of administration.

The significance of the move was played down by the administrators who said it was "merely a technical stage in the administration process".

It will allow them to put formal proposals to the project's creditors, if and when they are developed.

Negotiations are continuing on the issues that will allow the project to come out of administration, including the extension to the Jubilee Line underground service.

The administrators, from Ernst & Young, the accountancy firm, have won permission to put together either a Company Voluntary Arrangement, which involves an informal scheme of compromise by creditors, or a Scheme of Arrangement, a more formal route out of administration.

Record price

The singer Elton John sold his record collection – for £181,694 ($369,000), at Sotheby's. It consisted of more than 25,000 LPs and 23,000 singles, and was bought, through secret tender, by a private collector from St Louis, US.

Elton John is giving the proceeds to the Terence Higgins Trust, an AIDS charity.

TECHNOLOGY

Sounds of the cinema

The success of Steven Spielberg's film *Jurassic Park* has brought reflected glory to a three-year old Belfast technology company.

Audio Processing Technology, which has a staff of just 20, is providing the vital component in the cinema sound system which gives digital, rather than analogue, dinosaur roars.

APT has developed a way of compressing the soundtrack of the film so that it can be put on a compact disc which is synchronised to play alongside the film.

The idea for digital sound first came from Spielberg himself, who wanted to explore the idea of a superior soundtrack to accompany his blockbuster.

Spielberg, along with Universal Studios and others, was instrumental in setting up the Californian company Digital Theatre Systems which builds the cinema playback systems which incorporate APT's technology

Demand for the sound systems has grown to such an extent that APT's managing director Stephen Smyth believes that there will be more than 5,000 cinemas using the system by the end of year – as far apart as the US, Japan and Europe.

The compression algorithm squeezes the sound into one quarter of the space usually needed by removing the redundancy in the soundtrack. This means the six-channel stereo soundtrack can be supplied on CD. The technique is not dissimilar to that used by Sony to compress music on to its mini-disc system.

Smyth points out the chips can also be used in the transmission of calls over the latest digital telephone lines or the preparation of soundtracks for television programmes.

Cinemas not equipped with the digital system can still show *Jurassic Park* because, as is conventional in film recording, each film has the analogue soundtrack of blood-curdling screams and the pounding of prehistoric feet optically recorded alongside the pictures.

A further advantage of this, reassures Smith, is that should the latest digital equipment break down, the projection would automatically revert to the analogue soundtrack.

Della Bradshaw

Heavenly inspiration

The US Star Wars initiative has led to a wide range of discoveries, says **Victoria Griffith**

When former US President Ronald Reagan revealed the Strategic Defence Initiative to an awe-struck television audience 10 years ago, he captured the imagination of the world.

To many, the concept of a defence system which would intercept nuclear missiles in space seemed the perfect palliative to a world fearful of nuclear war. To others, it seemed an impossible dream, and the programme's nickname, "Star Wars", captured the scepticism and hope the project inspired.

If the Star Wars initiative is not yet dead, it is certainly on its last legs. Earlier this year, SDI was forced to change its official name to the Ballistic Missile Defence Organisation (BMDO), and told to shift its priorities from space-oriented research to ground, or "theatre", missile defence.

The proposed 1994 budget has allocated no resources to space-based interceptors, the heart of the Star Wars programme, and a pending Congressional bill looks set to cut funding for the office's other projects further. Almost $30bn (£20bn) was poured into SDI over the last decade, and now that the project is facing demise, it is natural to question whether any good came out of the massive initiative.

Although the goal of catching nuclear missiles in space remains little more than a dream, a dazzling array of new technologies has been developed by Star Wars researchers.

From the beginning, the SDI office boasted an aggressive scheme to transfer technology to the private sector and many companies are making use of these new tools.

The wide range of technologies available attests to the ambitious nature of the SDI initiative. Discoveries range from medical advances to computer software and new materials. Products on the market today include synthetic diamonds for use in industrial cutting, laser shows for Disney World, and three-dimensional computer software for architects.

The BMDO office maintains a database with descriptions of 2,000 new technologies spawned by SDI. The number of technologies listed is far more impressive than the sales they generate, though.

According to the BMDO, hundreds of companies are now relying on Star Wars discoveries, but most of those groups are small, with annual sales of $10m or less. Many companies are still in the research and development phase, without any products yet on the market. Still, those involved with the SDI spin-offs say annual sales are a poor measure of the new technologies' success.

"A lot of these companies will see their sales mushroom over the next few years," says Aram Mooradian, chairman of Microcor, which helped develop laser systems for SDI. "Also, a lot of this is what you call 'enabling' technology – technology that can enable the development of a multi-billion dollar industry. Microcor's sales may not be that large, but we're working on laser components for a $4bn sector." Microcor is currently developing a miniaturised laser product which would add clarity to the images produced by projection television – television which is projected on to a big screen. Laser and computer software were two of the most prolific sectors of SDI research, and both have proved especially applicable to the medical field.

"We came up with a computer programme designed to track ballistic missiles after they took off," said Kendall Preston, president of Kensal Corporation, which worked on Star Wars research.

"We had to deal in detail with a three-dimensional world. When we started looking around for alternative markets, the medical field was the first thing that came to mind." Kensal Corporation now produces three-dimensional pictures of human tissues to help physicians develop treatments for their patients.

Another company making a successful shift to the medical market is AccSys Corporation. The founders of the company were originally asked to develop an accelerator for neutral particle beams, which would be used to distinguish decoys from actual nuclear missiles. Today, the group uses the technology in proton therapy for cancer patients. With the new accelerator, a beam projects high-energy protons into a patient.

"The protons go through matter with no damage," said Robert Hamm, president of the group. "But then they are deposited in the tissue where the tumour is located. There, their energy explodes and kills off the targeted cancer cells."

The transfer of technology from SDI to the private sector has been a herculean task for the defence department. The SDI group has spent years matchmaking between the developers of technology and their markets.

SDI targeted small companies rather than large corporations, under an initiative called the Small Business Innovation Research (SBIR) programme, which continues to provide a small amount of funding.

"We had a limited amount of money and decided it would make a bigger impact on smaller companies, which are more research and development oriented," said Nicholas Montanarelli, who heads the SBIR programme.

Since its inception, the programme organised several conferences a year to allow its suppliers to meet potential customers. The conferences were attended by representatives from a number of different industries, and developers of technology for SDI were periodically invited to deliver half-hour presentations on their research.

The job of the representatives was to discover how some of these technologies could be used in industry.

All intellectual property rights for the new technologies also belonged to the companies developing the new products. Many of the companies that are now marketing SDI technology were started by individuals once working for the federal government.

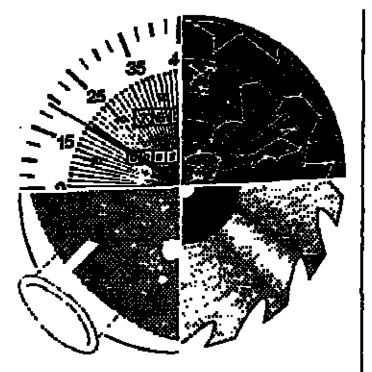
"The key to a good technology transfer programme is having certain people who want to go with the technology and start up a company on their own," says Peter Clout, a former employee of the national Los Alamos Laboratory and today president of Vista Control Systems, a company selling software developed with SDI funds.

"You can't just wrap the technology up in a parcel and put it in the mail."

The worth of the Star Wars initiative will probably be debated for years to come. While $30bn may have been a high price to pay, there can be no doubt that a number of useful technologies has emerged from the project.

Whether or not these will translate into the billion-dollar industries many of their developers are hoping is still uncertain.

Worth Watching · Della Bradshaw



Wiring boost for the smaller car

An innovative form of car wiring harness, claimed to be 30 per cent lighter than conventional wiring, is to be incorporated in a small car to be launched by Nissan next year, writes John Griffiths.

Called "flexible flat circuit", and developed in partnership with Mitsubishi's cables subsidiary, it is stamped out of flat conductive material and covered with insulation to form a sandwich-like board – in essence, an adaption of printed circuit technology. The circuitry is cheaper to produce and install than conventional wiring looms, which are assembled from single wiring strands that often have to be pre-heated to be bent around the car's operating mechanisms. Nissan: Japan, 03 5565 3148.

A secure move for personal computers

Most computer security devices prevent unauthorised access, copying of discs or the spread of viruses. Swift-Tech, of Huntingdon, has produced a device which does all three.

The Sysecure, which is compatible with almost all PCs, is a mechanical lock which attaches to the floppy disc drive and controls the power supply to them. By tapping a pin number into the keypad the PC can be used. Two security levels mean some users can access data from the floppy disc, while others can only use data held on the computer's memory, preventing virus-ridden discs being introduced and software being illegally copied. Swift-Tech: UK, 0480 433100.

Essential tool for the home worker

Working from home has meant a surge over the past year in the use of domestic facsimile machines in the US, according to the latest report from BIS Strategic Decisions.

Of those people questioned who operated a business from home, 47 per cent had bought their fax machine in the past year. Of the respondents who took work home from the office, 89 per cent said their machines had been purchased in the last 12 months.

The report, User Requirements for Home Facsimile Product, concludes that need, rather than falling prices, has proven the driving force behind the purchases. BIS Strategic Decisions: US, 617 982 9500.

Flying high with diesel power

Trials have begun on the Isle of Wight of a diesel-powered engine for light aircraft. The designers believe the use of diesel oil, as opposed to aviation gasoline, will save £10,000 on a flying time of 500 hours – the purchase cost of the engine.

Although designers have been aware of the benefits of diesel engines in the past, use of the fuel has resulted in torsional vibration, which produces an uneven twisting action of the crankshaft and consequent risk of propeller failure. ABN Engines, of Ryde, have overcome this by putting the components in a novel configuration which gives the Ashton engine an inherent balance and reduces the loads reaching the crankshaft. ABN Engines: 0983 403468.

Designed to run on air

Runners can now buy high-technology running shoes which borrow as much from the car industry as they do the world of sport. Adidas's tubular technology enables runners to customise their shoes by blowing up parts of the soles in a similar way to blowing up a car tyre.

The Tubular shoes contain two chambers of air-filled rubber in the outer sole – the part of the sole which comes in contact with the ground. By blowing up the two chambers the runner can adjust the cushioning and stability. The shoes, on sale next week in France, Germany, the UK and US, come with a digital pump and guidance on the appropriate pressure. Adidas: UK, 061 419 2500.

THE PROPERTY MARKET

A move to the country

Vanessa Houlder on Lloyd's Register's controversial plans

Lloyd's Register, the ship classification society, shares little more than its name with Lloyd's of London, the insurance market. But it plans to follow the example of its namesake by constructing a new office building designed by the architect Richard Rogers.

The plans are once again controversial. This time, however, the controversy is not about the design of the building, but rather about the company's decision to move from London to Liphook in Hampshire. Assuming the building wins planning permission, it expects to move by 1996.

There is little doubt that the society needs to leave its existing offices, which are overcrowded, dilapidated and expensive to maintain. "We have slum-like conditions," says Mr Patrick O'Ferrall, the society's chairman.

Relocation will loosen the society's ties with the world of maritime business

But critics are not convinced that the move out of London is justified. It will uproot 60-80 per cent of Lloyd's 1,350 staff and will loosen the society's 233-year-old ties with one of the world's leading centres of maritime business in favour of one with no shipping tradition.

"The move is sad for Lloyd's Register, sad for the City of London and sad for shipping," lamented a recent editorial in Lloyd's List, the newspaper. "... It cannot be good for London's future as a world shipping centre that the leading classification society is set to add to the diaspora."

But Mr O'Ferrall defends the plans for the move, which he set in motion when he joined the society as deputy chairman in early 1991. The relocation is "good for our customers, good for our staff and thus good for Lloyd's Register and the wider community", he says.

Certainly the reason cannot be financial. The collapse of rental values in the City and the expected cut in London rate bills after 1995 have made the capital less expensive.

The 376,000 sq ft building is budgeted to cost about £34m, but the cost of relocating the staff will be far greater. The society may have difficulties in assigning the lease on its Croydon office building, which is currently occupied by its industrial and engineering services division.

It has planning permission for a 275,000 sq ft office building on its Fenchurch Street site. But what its value will be by 1996 is highly uncertain.

Although there is no clear financial case for the move, Lloyd's believes it is justified by the need to improve its staff's "quality of life".

"Getting in and out of London is a painful experience," says the chairman, who commutes in from Godalming, Surrey, himself. He thinks that productivity will improve if staff have an easier journey and more pleasant surroundings.

They are also more likely to stay late if they have an easy journey home, he believes. "If people's journeys [are] easy you don't get a stampede at 5.30. It will be an added benefit," he says.

He hopes the society will also benefit from bringing its workforce together under one roof.

The site in Hampshire was chosen after an exhaustive search of the south-west for places with easy access to London and airports.

Lloyd's feels confident that its workforce supports the idea because of the findings of a questionnaire it commissioned in the early stages of its plans.

However, companies that move to the country often find their employees miss the bustle of towns. Debenham Tewson Research, a property adviser, published research showing that many tenants that moved out of town missed the shopping, leisure facilities and access to public transport to be found in cities. Lloyd's is considering installing shopping facilities and a bus service to and from the nearest station.

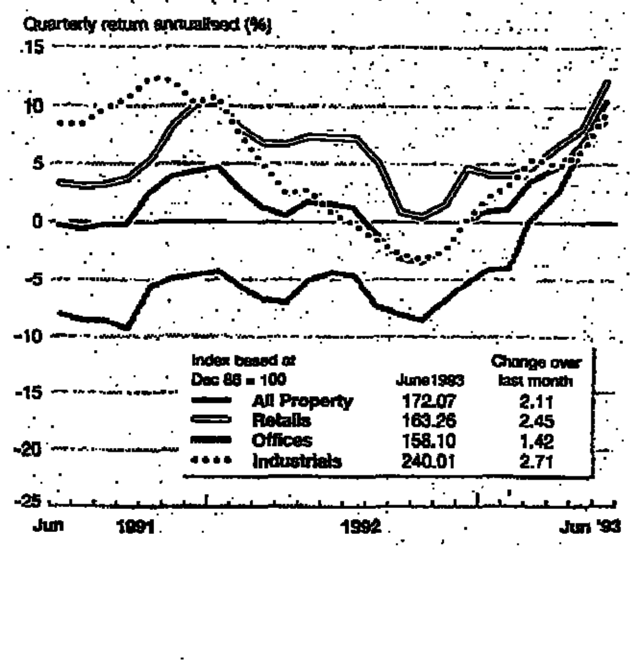
An extra problem for its employees may be the disruption suffered by their spouses, two-thirds of whom are in employment. That said, those who work in London will find that Liphook is within commuting distance.

Lloyd's is not severing its link with the City entirely. It is keeping one of its City buildings, the listed Fenchurch Street headquarters by Thomas Collcutt – one of the finest turn-of-the-century buildings in the City – for the use of senior staff, particularly those involved in marketing. It intends to use videoconferencing facilities to communicate between London and Liphook.

Nonetheless, it is hard to dispute the conclusion that Lloyd's decision to move is a blow for London. Central London has lost about 60,000 jobs over the past seven years through relocations. The flight of companies, which reached record levels in 1991, has slowed down as a result of the recession. But as Lloyd's decision shows, the City cannot take the continued presence of even its oldest companies for granted.

Central London has lost about 60,000 jobs through relocations

IPD monthly index for June



Index based at Dec 86 = 100	June 1993	Change over last month
All Property	172.07	2.11
Retails	163.26	2.45
Offices	158.10	1.42
Industrials	240.01	2.71

Values improve

Commercial property values have risen for the first time in more than three and a half years, according to the June figures compiled by the Investment Property Databank, a research group.

A rise in values across all the sectors pushed the capital growth index up by 0.5 per cent for the month. The improvement stemmed from a further shortening of yields, which dropped from 9.9 per cent to 9.8 per cent. However, rental values continued to decline, leaving the all property rental growth index at its lowest level since December 1989.

The all property total return stood at 2.5 per cent for the second quarter of 1993, against 0.8 per cent for the first.

Capital growth showed a marked improvement over the previous quarter, averaging 0.2 per cent, but rental values fell by 3 per cent compared with their 2.5 per cent decline in the quarter to March.

The recovery of the first six months of the year will, if it persists at roughly the same rate, be sufficient to produce an end-of-year return to the IPD monthly index of between 5 and 7 per cent.

Retails were the best performing sector in June at 1.5 per cent, compared with 0.6 per cent in May.

FINANCIAL TIMES SURVEY

Industry: high technology has replaced the smoke stacks: Inside

WALES

Oil and gas finds bring fresh hope for the Clwyd economy: Inside

Friday July 30 1993

Next test : a cultural revolution

A more fundamental change than an urban facelift will be for Wales to move from the employee culture, created by large state-owned industries, to an entrepreneurial culture, writes Roland Adburgham

THE VIEW is distracting as you cross the Severn Bridge into Wales. Seaward, in the middle of the estuary, concrete caissons are in place. Soon there will emerge – like the sword Excalibur in Arthurian legend – the main pylons for the new £300m bridge. They will be 137 metres high.

The second Severn crossing, which is being built by Laing-GTM – and privately financed – is not scheduled to open until 1996, but it is a striking example of the infrastructure investment benefiting Wales.

In the north, the upgrading of the A55 road link with England will be completed next year at a cost of £650m.

Although parliamentary approval of the Cardiff Bay barrage bill has been delayed, contractors have already been invited to tender for the £152m project.

Mr Peter Kelly, regional chairman of DTZ Debenham Thorpe, property advisers, says: "With a barrage, Cardiff will be propelled into the forefront of European cities as a property location."

In spite of such schemes, construction output in the principality slumped by 19 per cent in the first quarter of 1993, compared with the year before. But overall Wales has found this recession less traumatic than some other regions. The housing market has seen much smaller falls in prices than in south-east England.

There have been heavy job losses – nearly 500 at Trawsfynydd power station in Gwynedd and 370 at a Port Talbot cigar factory were announced only 10 days ago – but the rate of unemployment, 10.2 per cent in June, has at long last fallen below the national average.

An unfortunate consequence is some downgrading of assisted area status under the new plan announced last week, even though male unemployment remains above the national rate.

The GDP per head is lower than anywhere except Northern Ireland and wages last year averaged £271 a week, the lowest in Britain

"The recession has hurt and hurt a great deal," says Mr Ian Kelsall, director of the Confederation of British Industry in Wales.

"There are many scarred businesses and we have lost a lot of small businesses. But Wales has survived better than some other regions because the industrial base has been rebuilt over the last 10 years."

The latest quarterly surveys by the CBI and Wales Chamber of Commerce and Industry show that businesses are still cautious and reluctant to make commitments on capital expenditure until they are sure the recovery is well established.

However, Wales is seen as being among the first of the UK regions to come out of recession. Mr David Kern, chief economist of National Westminster Bank, forecast last month that between 1994 and 1998 Wales would be one of the fastest-growing regions. Cambridge Econometrics this month forecast that the principality would have growth of 1.8 per cent this year and 3.6 per cent next year.

The growth will be from a relatively low base. "Even though Wales may have fared better than elsewhere during the recession, it has had to come from a long way back," says Mr Graham Hall, lead executive of the Wales chamber. The GDP per head is lower than anywhere except Northern Ireland and wages last year averaged £271 a week, the lowest in Britain.

This is not to minimise the structural change that has taken place. Wales has been transformed from an economy dependent on coal, iron and steel to one in which new industries, especially inward investors, have enabled the manufacturing sector to retain a quarter share of GDP, higher than the UK average.

There are more than 350 foreign-owned concerns around which "clusters" of indigenous businesses can develop and raise their own standards.

"Productivity has improved and unit wage costs are now among the best in the UK," says Mr Kelsall.

Among the big investments this year has been British Airways' maintenance hangar at Cardiff Wales airport, scheduled to be opened by the Prince of Wales today and which will employ as many as 1,000 by 1994.

The value of regional selective assistance in stimulating investment was emphasised last April by Mr David Hunt, then Welsh secretary and now employment secretary.

"It has been a great success in encouraging job-creating projects in Wales," he said.

During the previous two years, companies had received more than 390 aid packages, worth nearly £150m.

The aid has not helped the Conservatives to gain electoral ground in Wales.

In the 1992 general election, Labour's share of the vote was 49.5 per cent, giving them 27 seats, compared with the Tories' 28.6 per cent and six seats, only two more than Plaid Cymru. But Mr Hunt's successor, Mr John Redwood, defending the redrawn assisted areas map, said it continued to cover the majority of Wales's working population and almost all of the main business locations.

Mr Redwood, while valuing inward investment, believes that more needs to be done to encourage home-grown businesses, innovation, and the substitution of imports of everything from cheeses to domestic appliances.

He would like to see more companies with their headquarters in Wales and the strengthening of Cardiff as a financial centre to encourage this.

If it is a time of transition at the Welsh Office – with the arrival of Mr Redwood and next week of Mr Michael Scholar from the Treasury as permanent secretary, and at the Welsh Development Agency with a new chairman – so it is with the local authorities.

Mr Redwood is pressing ahead with plans to replace the two-tier structure with unitary authorities by April 1995.

Despite political differences over such issues, the public sector and private sectors show a willingness to work together, often lacking elsewhere in the UK, to accelerate projects such as urban regeneration.

A more fundamental change than an urban facelift will be for Wales to move from the employee culture, which was created by large state-owned industries, to an entrepreneurial culture.

The structure of employment is reshaping, with the numbers of male employees steadily falling and those of part-time women workers and self-employed rising. But Wales is still seen as an immature market for the risk and growth capital needed to develop home-grown businesses.

Mr Nigel Guy, director in Cardiff of 3i, the venture capital group, says: "The boost of inward investment can put a veneer over business and economic life in Wales. There are very few second or third generation businesses."

He calls for a sea-change in the way companies look at themselves. "We need a switch in emphasis to make entreprenuerialism more respectable."

The Institute of Welsh Affairs, in its report: *Wales 2010: Creating our future*, says that small and medium-sized enterprises will be crucial in meeting the ambitious growth targets which it believes are possible.

"To achieve its enterprise culture, Wales needs nothing short of a cultural revolution."

Having survived the recession, that may be the next test for Wales.

After the transformation: the new face of industrial Wales. British Airways has built the largest aircraft hangar in Europe at Cardiff to service its Boeing 747 Jumbo fleet

Picture: Alan Holland-Avery

■ REGENERATION

Private sector role is crucial

IN the centre of Merthyr Tydfil stands a large notice. Redevelopment of the shopping heart of the town is being undertaken, the board states, by Chesterfield Properties in conjunction with the borough council assisted by the Welsh Office and an urban grant.

The Merthyr project is only one of more than 30 town-centre schemes being undertaken across Wales. Nearly all of them are partnerships between the public and private sectors. Urban regeneration has become one of the most important parts of the work being undertaken by the Welsh Development Agency, which is quietly in the background of the Merthyr scheme.

"The essential characteristic of the programme is that it should be seen as a joint venture" says Mr David Farnsworth, director of the agency's urban development department. "We are attempting to bring all sides together for the benefit of the areas involved."

A record £30m is being spent this financial year, Mr Farnsworth says, in towns ranging from Holyhead in the north to Barry in the south, from Milford Haven in the west to Caldicot in Gwent and Wrexham in Clwyd in the east.

Some are large: at Holyhead, capital investment of £3.31m is being undertaken while Merthyr has been allocated £3.2m.

Elsewhere the sums may be relatively small: £150,000 in Pontarddulais to develop the town's proximity to the M4 motorway or £200,000 in Conwy to make part of the centre a pedestrian precinct, improve the flow of traffic through the historic town and improve parking for the thousands of visitors who flock in during the summer.

The urban programme is geared towards investment in those places which have the potential to become growth sectors of the Welsh economy.

"We bring together public and private finance to create greater value and enhanced quality of investment," Mr Farnsworth says.

"The involvement of the private sector is crucial because this is just as much a partnership as that successfully launched by the agency a couple of years ago to produce more investment in the property sector."

Although there have been urban development schemes undertaken in Wales for some years, a co-ordinated programme did not really get under way until 1990 with the arrival of Mr Farnsworth at the agency's Cardiff headquarters.

In 1990-91 the WDA put just £4.8m into urban regeneration, which was supplemented by £5.8m from the private sector.

This year the agency will pump in £30m which should attract another £60m from the private sector and in 1994-5 the agency's budget is planned to be £35m while it expects the private sector to put in £120m.

"Between 1990 and 1995 we expect some £240m of private-sector money to have been levered in the Welsh economy," Mr Farnsworth says.

This spending is not just on new shopping centres or traffic-management schemes.

Landscaping and new infrastructure work is taking place this year in Llanelli; business development projects are being pursued in the Cynon Valley; and tourism facilities are being improved in Holyhead.

There is land reclamation at Barry; dockside redevelopment at Caernarfon; improved car parking at Caerphilly; a new access to a superstore site will be built at Pontypool where there are plans to make the canal more attractive to visitors; and an indoor market and the De Valence pavilion will be redecorated at Tenby.

"Large or small, these are all seen as enhancing the growth potential of their areas," says Mr Farnsworth.

The biggest of the joint-venture schemes is taking place at Swansea, Wales's second city. Swansea has already undertaken a large amount of new investment, building a barrage across the river Tawe, a marina and maritime quarter, an enterprise park and a hotel, all with official support from a variety of quarters.

Over the next five years it expects to invest about £27m from the public sector alone on improving the city's accessibility, its traffic management, clearing sites, attracting hotels, smartening property, and building houses, offices and factories.

The city believes this will attract £200m by the year 2003 which could lead to another 6,700 jobs being created directly and a further 4,500 indirectly.

Plans such as this have led to the European Commission taking a close interest in the way Wales is managing its urban programme. "We are attempting to change traditional approaches," Mr Farnsworth says.

Brussels officials are keen to see how the Welsh approach to public-sector management can be used elsewhere in the European Community

"The traditional management of towns has been to spend money on a problem when it arises. But towns are too complicated for such a simple approach.

"We are seeking now to make opportunities the most important factor. Instead of taking a departmental approach such as any borough director would do, we are looking at a town's economic needs and finding the most satisfactory solutions."

Earlier this year Mr Farnsworth and his team were asked by the European Commission to discuss their methods. Brussels officials are keen to see how the Welsh approach to public-sector management can be used elsewhere in the Community.

It is one way in which the Welsh approach is leading Europe.

Anthony Moreton

■ PROFILE: Victoria

A community created from the slag heaps

THE Ebbw Fawr valley, on the edge of Ebbw Vale in Gwent, was within living memory a Hades of a steelmaking mill, collieries, slag heaps and railway tracks, crossing a land contaminated with red furnace dust, writes Roland Adburgham.

The steelmaking ended in 1978; the collieries closed, and the land was reclaimed, at a cost of £20m, for last year's national garden festival. The festival, the last in a series of five in the UK, attracted 2m visitors and encouraged those who came from outside Wales to realise that the old image of the valleys was outdated.

The big question, though, was what should happen after the festival closed last October. Would the steeply sloped site, with its thousands of planted trees and shrubs, be allowed to decay into an unkempt wilderness?

Instead, the area was planned to have a full "after use", with the parkland retained and a village named Victoria, with business and industrial units providing local jobs. To achieve this, the Victoria Partnership has been established – a joint venture between the Welsh Development Agency, Blaenau Gwent borough council and Gwent county council.

Today, construction equipment is making access roads, and the first of 500 homes have been completed and sold by Redrow. Meanwhile, gardeners look after the festival's tropical plant house, the lake and 60 acres of ornamental gardens and woodland.

Mr Robert Croydon, of King Sturge, property consultants to the partnership, says:

"There were three objectives: to arrest migration from the heads of the valleys, with people moving away because there were no quality homes, environment or jobs; to bring back people who had already moved away to the coastal belt; and to encourage people to come who had no prior connection with the area."

Nealon Tannon, a Bristol firm of architects, was chosen to design the village centre of Victoria Green with small shops and a family pub.

Around it will be a mixture of houses for rent and sale and, nearby, self-build homes. There may be sheltered accommodation and a nursing home.

"We are trying to get a balance between young and single people and the elderly," says Mr Croydon.

Sculptures and four of the festival pavilions have been kept for such uses as a church and a village hall.

To provide jobs, there are business and technology parks, alongside the recently built regional headquarters of Welsh Brewers.

The festival at its peak employed 2,000 people, some of them redundant miners and steelworkers. Long-term, it is hoped there may be about 1,000 jobs created by the shops and business parks.

Victoria is due to be completed by the year 2000, when it should be possible to judge whether a genuine new community has been created out of the slagheaps of the past.

■ Oil and gas strike brings fresh hope for Clwyd economy

Waiting for the bonanza

THE county of Clwyd in North Wales has struck oil – or rather a consortium of Hamilton, Lasmo and Monument Oil has struck gas and oil in Liverpool Bay, a few miles off the Clwyd coast. What Clwyd hopes for, long term, is a bonanza.

Most believe it cannot come quickly enough, for some aspects of the local economy are on what Paul Roberts, head of economic development at Clwyd county council, says is a "knife-edge."

Clwyd lost about 10,000 jobs with the closure of much of the Shotton steelworks more than 10 years ago. It was close to clawing most back through inward investment and growth, but in 1991 lost 1,200 more at United Engineering Steels at Brymbo, near Wrexham.

Meanwhile, continuing recession in world aviation markets means dangling uncertainty for British Aerospace, which employs 800 people on executive jets and 3,000 on airbus wings in the county.

Inward investment brings jobs, but usually not many at a time. For example, when Amcor, a packaging company, recently decided to set up a corrugated cardboard factory in Clwyd, it brought in only a tenth of the jobs lost with the Brymbo steelworks closure.

What Clwyd needed therefore was something to give it a big leap forward and attract clusters of new investment. The newly-discovered oil and gas fields of Liverpool Bay look like providing it.

Indeed, for all the trumpeting of Toyota's decision to locate its engine plant in Clwyd near the now highly efficient strip-processing remnants of Shotton steelworks, Hamilton's discovery is widely expected to prove much more significant.

Toyota will eventually create about 300 jobs – about 100 people have been taken on already – and although this should lead to more among component suppliers, many will not be local. Exploitation of Liverpool Bay looks like offering bigger local prospects.

Gas is to be piped ashore to a terminal at Point of Ayr, on the tip of the Dee estuary. Oil will be removed directly from the field by ship and in the early stages at least will bring no direct benefit to Wales. The gas will involve initial developments costing £1.2bn.

From the terminal, gas will be piped about 15 miles to Connah's Quay, near the Queensferry border with England, there to fire a 1,350 MW, £580m power station which GEC Alsthom is building for Powergen.

Go-ahead for the entire development came in the spring after more than a year of delays. First, conservationists on both sides of the Dee estuary objected to the terminal, which will be near a nature reserve.

A public inquiry cleared the way for David Hunt, then Welsh Secretary, to approve the terminal in February, but by then the pit closures debate had seen the electricity generators' "dash-for-gas" put on hold, so the power station was stalled.

The first contracts were finally let at the end of May after the project was eventually cleared by government. Work on the £60m terminal has started, with immediate knock-on economic effects.

AOC International has the contract but associated civil engineering works are being done by David McLean Contractors, which is based in the Clwyd town of Flint, creating 700 local jobs immediately.

A total of 3,000 construction jobs are expected overall, with the first gas reaching Wales in 1996. Although the project will leave only 200 permanent jobs, Mr Roberts expects Clwyd to be in position to exploit what should be some attractive industrial infrastructure.

"We hope to attract to the region energy-intensive projects which can take advantage of such abundant supplies of gas and electricity. We think this might give us the basis for building good, long-term jobs.

"In the past we have played the numbers game. We have tried to retain employment as jobs drained away through closures by attempting to attract labour-intensive industries. We are now developing a base that should prove attractive to companies looking for higher skills, where people will be able to earn higher wages," he adds.

This is critical for male jobs in particular. Clwyd's male unemployment rate is 14.7 per cent – nearly three times worse than that for women, currently 5.3 per cent.

Redressing this imbalance would go some way to counteracting one of Wales's perpetual problems – a low gross domestic product per head relative to other parts of Britain. What Clwyd is hoping to get from new high technology industry is better value added in manufacturing, higher wages, and a more widely multi-skilled workforce with better local spending power.

The local professional infrastructure to back this up is developing. Mr Peter Richards, senior partner of Clement Jones & Co, a firm of solicitors based in Holywell is sure the Liverpool Bay developments will stimulate growth across the board.

A native of Crickhowell in South Wales, he joined the firm in 1973 after university and articles in Liverpool. He has since expanded it to 14 offices – eight in Clwyd, four in Gwynedd, and two in Cheshire – with more than 100 employed, including 30 fee-earners, including six partners. He claims his is now the biggest commercial law firm in North Wales.

Clwyd as a county is aiming for 25,000 new jobs by the year 2000, split equally between services and manufacturing. It also wants at least 500 export-focused companies by then.

Not all of the old world has been swept away, however. There is one working coalmine left – ironically, at Point of Ayr. It has survived the coal closure review, although with only half its former complement of 470 men.

Clwyd's leaders fought as hard to save it as they did for the gas terminal and power station which, many believed, threatened the pit's doom. However, the two fights were parallel, not inter-dependent, for the colliery's market is Fiddler's Ferry power station at Widnes on the banks of the Mersey, about 30 miles away. The old and the new look like co-existing for some time.

Ian Hamilton Fazey

KEY FACTS

	Wales	UK
Area (sq km)	20,768	242,520
Population (000's)	2,886	57,649
Male population (000's)	1,404	28,132
Female population (000's)	1,482	29,518
Economically active (000's)	1,232	26,048
Population density (per sq km)	138.7	236.7
Age structure (% of total pop.):		
Below 16 years	20.5	20.4
Above pension age	19.0	18.3
Population growth per annum[1]	0.3	0.2
Per 1,000 of the population		
Live Births	13.2	13.8
Deaths	11.8	11.3
Live Births outside marriage[2]	32.3	29.8
Economy:		
GDP (£ billion)	21.3	497.0
Per head:		
GDP (£)	7,365	8,516
Personal disposable income (£)	6,059	7,071
Consumers expenditure (£)	5,755	6,381
Housing:		
Owner occupation (%)[3]	72	68
Average new dwelling price (£)	51,100	62,800
Council house sales[4]	29.1	25.9
Education:		
Education expenditure (£bn)	1.178	21.754
Percentage spent on		
Nursery & primary education	31.0	29.1
Higher & further education	21.2	18.6
Pupil-teacher ratio primary	22.2	21.9
Pupil-teacher ratio secondary	15.6	15.4
16-year-olds staying on[5]	71.2	74.9
Health:		
Health expenditure per head (£)	372.8	353.4
Waiting lists[6]	18.3	8.8
Total HIV infections	302	19,065
Unemployment:[7]		
Unemployed as % of workforce.		
All unemployed	10.4	10.7
Male unemployed	14.3	14.4
Female unemployed	5.2	5.7
Unemployed (000's)	132.6	3,000.5

Notes: [1] 1981-91 annual average population growth. [2] Live births outside marriage as a percentage of all births. [3] Owner occupation as a percentage of all housing stock. [4] Total sales 1979-91 as a % of stock at end 1991. [5] Number of 16-year-olds staying on as % of total 16-year-old population. [6] People waiting over a year as % of total, Wales and England. [7] Unemployment figures not seasonally adjusted. April 1993.
Source: Regional Trends 28, 1993, Employment Gazette.

INFRASTRUCTURE

Time-saving benefit for inward investors

GWYNEDD, the north-west corner of Wales that is forever Cymru, has a new benefit to offer inward investors – the time taken to travel from the Britannia Bridge across the Menai Straits at Anglesey to the county's local airport.

The airport, which handles 13m passengers a year and runs daily scheduled services to Chicago, Atlanta, Los Angeles and two to New York, is the fastest growing in Europe and is at Manchester.

Mr Brian Rees Jones, the Welsh Development Agency's regional manager for North Wales, this month did the journey twice with an American businessman to prove it was no fluke to accomplish it in an easy 75 minutes.

This is new. The journey was always hindered by a depressing bottleneck across the River Conwy on the border with Clwyd where traffic crawled and queues lengthened each year in the summer.

In 1991, however, a tunnel under the river solved the problem. Apart from two near-completed sections of only a few hundred yards each, it is now motorway or dual carriageway all the way from Bangor to London, Liverpool, Leeds, Manchester or Hull – and the ferries to Europe are less than four hours away.

"Manchester Airport is now our local airport," says Mr Eurwyn Lloyd Evans, director of economic development and planning for Gwynedd County Council. "We only wish they would realise this in Cardiff."

He is referring to the Welsh Office, which frequently stresses the convenience of Cardiff's airport – from where a feeder service flies to Manchester – in its promotional material for Wales in general. Gwynedd is at least four hours away from it.

Completion of the A55 road from Chester to Anglesey has cost about £600m over a couple of decades. Gwynedd has felt an immediate benefit.

In 1991-92, the county attracted 23 projects in terms of inward investment or expansion. It is already certain to equal the figure this year. The comparison with previous years is startling: Mr Jones says the annual average had been stuck at five since the mid-1980s.

The road emphasises what has always been true about North Wales – its infrastructure runs west to east and its regional economic affinities are with north-west England. This is where many of the companies Mr Jones is now courting are based. Others are in the Republic of Ireland and, because of the airport, the US.

"Our greatest asset is now the A55. Linked to that, we have also got our act together to exploit it. The A55 has opened up this area and focused all our minds on what we want to do," he says.

The WDA, county council and Targed – the training and enterprise council for the area – are developing a strategy aimed particularly at sectors such as food and drink, health care, broadcasting and the media.

Mr Huw Vaughan Thomas, the county's chief executive, has forged particularly close links with Targed, to help ensure that training delivers the sort of multi-skilling that will provide the right sort of adaptable, flexible workforce.

He has culture on his side: two-thirds of the 240,000 population are fluent Welsh speakers who, by tradition, have always valued education. Mr Thomas says Gwynedd has more than half of Wales's A-level passes in information technology.

"We need more professional and technological activities to retain more young people in Gwynedd," he says. Too many still migrate elsewhere in Britain for work. He says unemployment rates of about 12 per cent remain his biggest problem, especially since they rise to 20 per cent in parts of Anglesey and, in winter, in the Lleyn peninsula.

Stena Sealink is beefing up its Dublin-Holyhead services with new high-speed ferries that will cut journey times by 100 minutes

Recent inward investors such as Thistle Trading, however, are very happy with what they have already. Thistle employs 70 near Bangor, making sweat-shirts, tee-shirts and boxer shorts for Marks and Spencer and will soon be taking on 36 more.

The project is an expansion by Abbey Textiles of Nuneaton. Mr David Reardon, Abbey's managing director, says availability of labour, plus a £15,000 training grant from Targed, made him choose Gwynedd rather than Derbyshire, the Black Country or South Wales.

Mr Maurice Reynolds, an Irishman, who is managing director and co-owner of McIntosh Reynolds, Anglesey's abbatoir, is particularly pleased with the infrastructure. His is the only EC-approved slaughterhouse in North Wales. The A55 now ensures easier journeys in and out.

He has exploited this by selling genuine Welsh lamb – guaranteed so by being both reared and killed in Wales – to Asda in particular. The company has invested £350,000 recently and has £2.5m set aside for more improvements. It can process as many as 20,000 sheep a week and 1,500 cattle.

The link to the airport is proving particularly valuable to Austin Taylor Communications which makes cable installation equipment and telephone connection components opposite the old Penrhyn slate quarry at Bethesda.

The company, which was one of North Wales's first inward investments in 1947, nearly foundered recently after diversifying into switchboard equipment and coming unstuck against the giants of the industry. It is now part of Communications Systems of Minneapolis.

Mr John Hudson, the managing director, uses Manchester's Chicago service regularly, as do his US colleagues. The company is coming back strongly in niche markets, employing 130 and exporting 30 per cent of its sales, which are at £6m a year and growing.

Meanwhile, infrastructure improvements are begetting others. Stena Sealink is beefing up its Dublin-Holyhead services with new high-speed ferries that will cut journey times by 100 minutes to less than two hours, so as to exploit the A55.

Mr Thomas says tributary roads will soon open up the Lleyn, and he wants improvements to Holyhead town centre – and its road to the Britannia Bridge made a dual carriageway – to prevent bottlenecks on Anglesey.

Tourism is also being boosted, with ease of access encouraging more day-tripping from Ireland as well as north-west England.

Even the by-passed town of Conwy is doing better. People now go there to visit its impressive castle and quaint quayside, not for a traffic-jammed ordeal.

The local barometer is a tourist attraction on the quayside which claims to be the smallest house in Britain – it is 72 inches wide, 100 inches deep and 122 inches high; people queue to go in one at a time and mount the stairs to view the tiny bedroom.

Ms Margaret Williams, an author and journalist who inherited the house from her father, says trade was 25 per cent up last year and is performing well this summer.

Hers is not the only traditional Gwynedd business to be doing well out of the county's history. Alfred McAlpine's Penrhyn slate quarry recently had a repeat order it is particularly proud of: it was from Harvard University, which wanted to match the last slate it ordered from Bethesda 150 years ago.

Ian Hamilton Fazey

INDUSTRY

High tech has replaced the smoke stacks

FEW things epitomise the new face of industrial Wales better than the arrival of Robert Bosch outside Cardiff two years ago to produce a new generation of alternators for the motor industry.

The £100m investment was new; the product was new; the end markets were new. For the German company, motor equipment is the most important part of its £5.4bn business and it had decided to locate its most advanced factory in a country that was once best known for its heavy industries – coal, steel, engineering, chemicals and metals.

"We chose Wales," says Dr Kurt Liedtke, managing director of the company's British arm, "because the site was close to the M4 motorway, the ports of Cardiff and Southampton and because we wanted to be close to the new motor manufacturers such as Nissan, Toyota and Honda which have set up in the UK.

"South Wales has a history of industrial excellence and so Bosch knew its employees would have the necessary technical skills which could then be further developed through re-training programmes."

If Bosch is a leading example of the new industrial Wales it is far from being the only one. Almost across the road from its plant, British Airways has built the largest hangar in Europe to service its Boeing 747 Jumbo fleet. Electronics, motor parts, food processing, pharmaceuticals and biotechnology abound. High technology has replaced the smoke stack industries of the past.

In case it be thought that the new Wales is only based in the south, the little town of Newtown, in mid Wales, is home to Control Techniques, one of the fastest-growing producers of variable-drive motors. Hamilton Brothers is building a gas and oil plant at Point of Ayr in Clwyd. Euro/DPC is making medical diagnostic products at Llanberis in the shadow of Snowdon. And Toyota has an engine plant at Shotton.

"The process of attracting new industry has resulted in a transformation in Welsh business and industry over the last 15 years," says Mr Ian Kelsall, Welsh director of the Confederation of British Industry.

"An enormous number of new jobs has been created and there has been a very large expansion in manufacturing industry in the country."

One newcomer is Ascom, subsidiary of a Swiss concern whose £1.5bn annual turnover puts it among the larger producers of telecoms equipment in Europe.

"We started in Cardiff in 1985," says Mr Payl Moirano, marketing director, "with a workforce of 100. It's now up to 300 and we are still recruiting. The plus factors are a flexible labour force, good labour rates and a workforce with an ability to learn new skills. Employment costs in Wales are very competitive against those anywhere else in Europe."

Mr Keith James, chairman of Eversheds Phillips and Buck in Cardiff, and a director of the Bank of Wales, says that the "Welsh economy has been transformed to one with an above national average proportion of manufacturing. Manufacturing now accounts for 27.3 per cent of Welsh gross domestic production whereas the UK figure is only 22.4 per cent.

"Success in attracting big export-oriented names such as Sony and Panasonic means Wales is increasingly integrated into the European and world economy."

Today, more than 25,000 people work in electronics, a figure overshadowed by the 70,000 in the financial-services sector. Financial services, with the arrival of concerns such as National Provident Institution, N M Rothschild, Axa and D C Gardner have been one of the cornerstones of the new growth. Even those older industries which remain have played their part in the regeneration of Wales.

Production lines at Newport and Port Talbot are among the most efficient and most profitable in Europe

Coal may no longer be more than a bit player in the economy, with just four pits employing about 1,000 people where once a quarter of a million worked underground. But steel, even if its numbers are drastically reduced, still has a leading role.

The industry now employs some 14,600 where once there were more than 85,000. But its production lines at Newport and Port Talbot are among the most efficient and most profitable in Europe, while the coated-steel plant at Shotton is a market leader.

The tinplate works at Troestre and Ebbw Vale are producing a new can opener, the Ecotop, a twin-button opener to replace the ring-top, described by Mr Brian Sims, an executive at Newport, as "a significant new development in beverage packaging. Instead of having to pull the ring, you just push two small buttons.

"The product has been developed by us in conjunction with Hollands's Hoogovens and Germany's Rasselstein and has been accepted by Sainsbury's. It illustrates the international nature of our business."

Two academics at the Cardiff Business School, Mr Stephen Hill and Ms Julie Keegan, have pointed to a "Welsh manufacturing renaissance," showing how the long-term decline in industry has been reversed in Wales. In a paper, *Made in Wales*, written for the CBI, they state that "Wales started the 1980s with relatively low levels of manufacturing output and with manufacturing making a lower-than-average UK contribution to regional GDP.

"By the end of the decade the Welsh manufacturing position had been transformed. Manufacturing had grown faster than the UK average so that it now makes a higher-than-UK-average contribution to regional GDP."

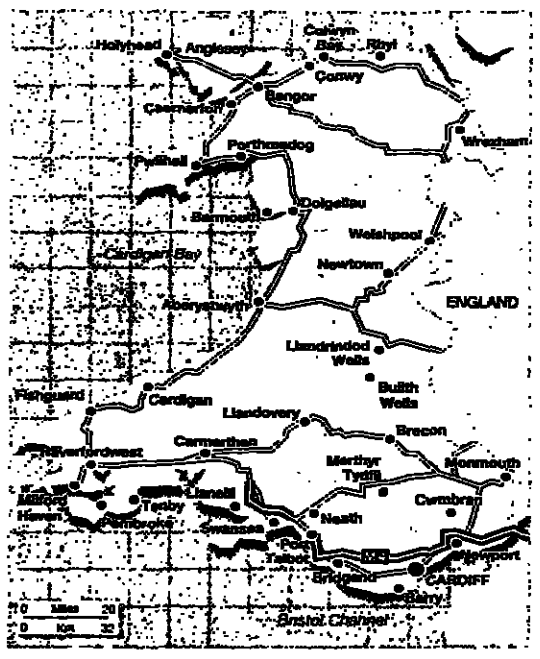
That renaissance has been stimulated to a great extent by the arrival of inward investment, much of it from overseas but a large amount from elsewhere in the UK. "Attracting new investment in Wales, environmental improvements and helping small and medium-sized companies to grow will continue to be our key priorities," says Mr Phil Head, chief executive of the Welsh Development Agency.

Dr Gwyn Jones, until June chairman of the WDA, adds that in the five years of his chairmanship "The agency has more than doubled the rate of inward investment projects and tripled the associated capital investment. Wales is now seen as the leading UK region for winning inward investment and we are much feared by our European competitors."

The last word on the transformation comes from Mr Kelsall. "The new industry and the new arrivals have resulted in a general improvement in standards. When the Japanese first came to Wales just over 20 years ago they could not get the the sort of quality supplies they wanted from local manufacturers.

"Their presence has helped to bring about a very considerable rise in standards among existing producers. That is of immense benefit to the economy as a whole."

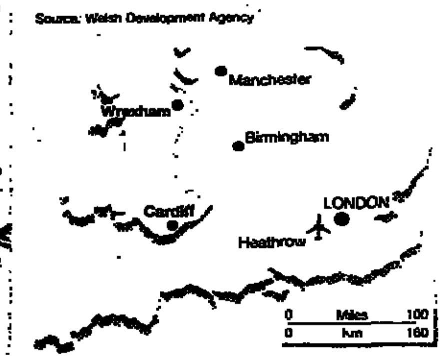
Anthony Moreton



Travel times by road

Cardiff to	Manchester	3 hours
	Birmingham	2 hours
	London	2 hours 30 mins
	Heathrow airport	1 hour 50 mins
Wrexham to	London	4 hours
	Cardiff	3 hours 20 mins
	Birmingham	2 hours
	Manchester	40 mins

Source: Welsh Development Agency



Every rural area in Europe has had to come to terms with big changes to the structure of agriculture and the serious impact this has had on jobs and income levels. The signs are that rural Wales is beginning to cope better than most.

There has recently been a slow but steady expansion of population in the region – which stretches from Snowdonia, in the north, the Brecon Beacons, in the south, and from the coast of Cardigan Bay to the English border – following a century of decline in agricultural employment.

In the past decade, population has grown by 7.5 per cent compared with 2.4 per cent for Wales as a whole, although the exodus of young people is still a big worry.

The attractions of the rural heartland of Wales, which covers 40 per cent of the principality's land area, include low commercial rents and housing costs, a high quality of life, a good workforce and financial assistance and business advice from the Development Board for Rural Wales (DBRW), established by the government in 1977 to tackle the problems of depopulation.

The area's big drawback is the widespread perception of remoteness and isolation, even though this has been alleviated by recent improvements in road, rail and telecommunications links, plus the assumption that industrial activity is inappropriate so far from big population centres.

Nonetheless, progress has been impressive. In the 12-month period ending in March this year, private sector companies announced more than 100 investment projects worth a total of £25.7m, supporting

Projects announced recently include an £8.5m expansion programme by Control Techniques, a leading producer of electronic drives, at Newtown

■ How rural areas are coping with change

Telecottaging as a way of life

1,300 jobs. These capital programmes were stimulated by a record level of £3.6m of financial assistance from the DBRW.

The level of investment by business looks set to continue in 1993-94. In the first quarter of the current financial year, approval has been given for grant assistance of £1.1m for 24 private sector projects, stimulating investment of more than £7.3m and producing 450 jobs.

Mr Glyn Davies, chairman of the DBRW, says: "We have managed to achieve record-breaking investment during very lean years.

"We believe even greater prosperity will be created in the years ahead."

Another indication of the expansion of the economy of rural Wales, with its widening manufacturing base, is the decision of the board this year to construct only pre-let and bespoke premises rather than advance factories.

"We need to raise the quality of employment and all our current and planned construction is for companies which meet these wider objectives. There will be no speculative building at all," Mr Davies says.

Projects announced in recent months include an £8.5m expansion programme by Control Techniques, a leading producer of electronic drives and controls, at Newtown, the completion of the new European headquarters of Fisher Gauge, Canadian-owned specialist engineers, at Welshpool, and the construction of a high-specification factory for Labtech, a subsidiary of Aerospace Engineering, at Presteigne.

Mid-Wales companies have developed so successfully that 85 per cent of the DBRW's financial assistance in the past year has gone to locally-established businesses – "a healthy sign for long-term rural prosperity," says Mr Davies.

Nevertheless, attracting inward investment remains an important part of the board's work. In the past year, one in three of all new projects going to Wales from the rest of the UK has decided to locate in rural Wales.

This trend should be continued through the current development of eight small, attractively-located business parks, including ones near Snowdonia, Cardigan, Welshpool and Brecon.

Predictably, because of ease of access and better communications, progress has been greater in the east of the region than in the far west, and added emphasis is now being placed on attracting more jobs to Cardiganshire and Merioneth, where agriculture has been particularly dominant.

Farm diversification projects have received help and advice and the DBRW is seeking to develop a variety of locally-based activities, either divorced from agriculture or giving added value to agricultural products.

Many small-scale industrial, high-tech and advisory activities can be placed in rural areas, providing more varied employment opportunities and helping to retain a working population across a full range of age and ability.

A potentially-important provider of employment is telecottaging, which offers training and equipment to enable people to work in or close to their rural base.

In essence, a telecottage is a workplace and trading centre in a village, filled with computer and communications equipment that can be used by local people, businesses and community groups.

As well as providing low-cost training in high-tech equipment, the telecottage offers electronic office services to small businesses and teleworkers, including accounting, spread-sheeting, desk-top publishing, electronic mail, fax and photo-copiers.

Mr David Rowland, chairman of Telecottages Wales and an organiser of a telecottage at Llangedwyn, an old mill complex on the borders of Powys and Clwyd, believes the potential for local rural employment is considerable, particularly when proper quality standards are set, so that employers have confidence in the system.

"The cost of work here must be a twentieth of what it would be in a big city," he says.

Mr Davies does not regard telecottaging as a significant factor in boosting local employment yet, but he believes this will change.

"The benefits of telecottaging are going to come in the longer term by ensuring that the rural population, particularly the young, have complete familiarity with new technology," he says.

Richard Evans

Useful addresses

- Confederation of British Industry, Wales, Pearl House, Greyfriars Road, Cardiff CF1 3JR (*tel 0222 232536*).
- Development Board for Rural Wales, Ladywell House, Newtown, Montgomeryshire SY16 1JB (*0686 626965*).
- Institute of Welsh Affairs, Aberconway Building, Colum Drive, Cardiff CF1 3EU (*0222 377345*).
- Wales Chamber of Commerce and Industry, 101-108 The Exchange, Mount Stuart Square, Cardiff CF1 6RD (*0222 481648*).
- Wales Tourist Board, Brunel House, 2 Fitzalan Road, Cardiff CF2 1UY (*0222 499909*).
- Welsh Development Agency, Pearl House, Greyfriars Road, Cardiff CF1 3XX (*0222 222666*).
- Welsh Office, Cathays Park, Cardiff CF1 3NQ (*0222 825111*).

■ FOOD AND DRINK

Red dragon campaign is gathering pace

THE red dragon of Wales, long familiar at Cardiff Arms Park and other sporting venues, is being seen increasingly in shops and supermarkets as the campaign to promote Welsh food and drink gathers pace.

There are more than 40 organisations with varying degrees of responsibility for the development or promotion of Welsh foods and the scale of the fragmentation was a big factor in the creation of the government-backed Welsh Food Promotions company two years ago to act as an umbrella organisation.

"Our chief aim is to put Welsh food on the UK, European and international map by developing and co-ordinating all food-related activities," says Mr Peter Budd, chief executive.

"What we are trying to do is create a Welsh food brand so that when people see the Red Dragon they equate it with a quality product."

The company, funded by the Welsh Development Agency, Wales Tourist Board and the Development Board for Rural Wales has a brief that spans the entire industry from the farmer and primary producer through processing, marketing, retailing or catering, to the table.

One of the first actions was to develop a brand image in the form of the dragon logo. Its use is being increased at displays of Welsh food so that it can develop into a widely-recognised symbol of quality.

Until recently, Wales had a reputation as something of a culinary desert, with recognition limited to lamb, leeks and laver bread. There is now a growing number of international-class restaurants and a lengthy list of specialist-quality products such as cheeses, mineral waters, confectionery and even wines.

The challenge remains to get them better used within Wales, particularly at catering establishments, and better known outside Wales, in the rest of the UK and internationally. Hence the growing list of promotions and exhibitions.

Wales, more than other parts of the UK, is typified by the large number of tiny producers throughout the food sector. Many are too small to market their products effectively in a retail environment dominated by supermarkets.

The next big move is likely to be the launch of a retail shop for Welsh food products in Cardiff. Test-marketing is under way and the shop could be open later this year.

Although there has been an emphasis on finding new products to promote, great progress has been made in marketing one of the country's traditional products, lamb. As Mr Budd says: "We are very good in Wales at producing grass and this means we produce the best lamb."

Seven years ago, exports of

Welsh lamb exports to Europe are now worth some £50m a year

Welsh lamb were negligible, whereas now exports to Europe are worth £50m a year and it is a rapidly-expanding market.

Welsh Lamb Enterprise, now part of Welsh Food Promotions, reckons demand from overseas could more than double in five years. Exports this year are already up by 40 per cent on those of 1992.

More than 600,000 carcasses will be exported to Spain this year and the success of this campaign will form the basis of assaults on other European Community countries, including Greece and Germany, both potentially big markets.

The small, lean Welsh lamb carcasses are particularly popular in Mediterranean countries and special cuts are also being developed for France, where sales are held back because of the limited attraction of the larger local product.

Spanish preference is for loins of lamb, while consumers in Portugal and Greece demand the shoulder and the French and Italians prefer leg.

A new factory, due to be commissioned next year, will process local lamb into a range of oven-ready products for the UK retail trade, thus opening up substantial new markets at home.

Other important niche markets being increasingly exploited because of the high added-value are spring water, speciality cheeses, organic vegetables and even Welsh wine and whisky.

There are at least 15 Welsh bottled-water producers jostling in a competitive but growing market, including Ty Nant in its distinctive blue bottle, Prysg, Decantae and Brecon Beacons water.

A dedicated handfull of winemakers across south and east Wales grow grapes in fickle weather conditions but only one, Llanerch vineyard in the Vale of Glamorgan, makes its own wine on the premises.

Peter and Diana Andrews, formerly pharmacists, produce more than 10,000 bottles of Cariad wine a year. Half is sold through the farm shop and the other half to restaurants, hotels and for hospitality and corporate events.

There are a large number of cheese producers, many of whom make small quantities of high-quality produce such as farmhouse Caerphilly, Pencarreg and Llanboidy. However, individual marketing has led to limited success beyond the borders of Wales because of the high cost.

Mr Tony Craske, founder of Abergavenny Fine Foods which makes a number of specialist cheeses, believes there is a value in promoting Welsh food as a brand.

"It can raise people's perception of Welsh produce, particularly in the media, but ultimately we all stand or fall on the quality of our individual products."

Richard Evans

■ EDUCATION AND TRAINING

This vicious circle must be broken

POTENTIALLY, Wales in the year 2010 could be one of the most prosperous regions in Europe, but the greatest single threat to achieving that would be the marginalisation of Wales within a marginalised UK.

That was the conclusion of a project group of the Institute of Welsh Affairs in its report *Wales 2010: Creating our Future*, published in May.

Unless Wales prepared for the transformation in Europe of patterns of employment, there would be little available other than the type of low-skilled activity associated with the third world.

"Wales' competitiveness will depend, increasingly, on the quality of the people who work here," the report said, stressing that education and training were crucially important to achieving the *Wales 2010* vision.

The report by the institute, which promotes research on policy issues affecting all aspects of Welsh life, added: "Wales needs to break out of the vicious circle: low achievement by too many of its schoolchildren, leading to low level skills, leading to lower skill jobs being available, leading to reduced incentive to train..." It emphasised that far higher priority should be given to developing the skills of those already at work.

While the UK workforce in general lacks skills compared with other European countries, it is a particular problem in Wales because so many of the skills that do exist – from the coal, iron and steel industries – are in less demand or have been made redundant.

Sir Wyn Roberts, minister for Wales, has said there needs to be a big increase in skills levels to compete with other countries. "The success we have had in attracting inward investment, and the performance of both new and indigenous businesses, has shown the value of having a flexible and adaptable workforce," he said.

"It has also underlined the need for us to increase the supply of skills in order to go on widening the economic base and develop a higher value-added economy."

Both male and female economic activity rates in Wales are the lowest in Britain, but those for women are increasing while those for men are falling. In 1991, only 81 per cent of the adult Welsh male population was seeking or in work, while for women the figure had risen to some two-thirds.

In terms of people rather than percentages, it means that since 1979 there are 140,000 fewer full-time male employees, compared with 5,000 fewer female. Significantly, there are 54,000 more part-time women workers.

A variety of initiatives is under way to raise the qualifications and skills of the workforce. One of the most imaginative is that of the Opportunity Shops being opened by Mid-Glamorgan training and enterprise council to advise people on educational and training opportunities.

Five have been opened this year, and a sixth is imminent, with a total of nearly £1m to be invested in each of their first three years. The concept, says Mr Allen Williams, the TEC's chief executive, "is to spread the message of training as widely as possible to all individuals in Mid-Glamorgan, with the slogan of bringing learning into the high street and putting it on the shopping agenda."

In the first eight weeks, the Bridgend shop alone has handled more than 850 inquiries.

An important factor in raising skills is the role of colleges, and Mr Williams says the seven colleges with which the Tec has training contracts have become much more vocationally aware and are developing strong links with industry.

In another initiative, Welsh Tecs in collaboration with the University of Wales, Aberystwyth, have launched this year the Wales Information Network, a database to allow employers to access training information on their own computer systems.

Mr David Rowe-Beddoe, the new chairman of the Welsh Development Agency, has made it clear that he regards as vital not just the creation of jobs, but of quality jobs. That requires employers to recognise the value of training and Mr Williams is not encouraged.

"Employers' attitude to training is downright poor, particularly as we are going through a recession which puts it at the bottom of their list," he says.

"We have considerable difficulty in persuading them that investing in people is as important as investing in plant."

That has to change if the Wales 2010 vision of a flourishing Wales, at the forefront of European regions, is not to prove a mirage.

Roland Adburgham

Boost for women's role in the workforce

A SURVEY of more than 300 companies in Dyfed, Powys, Gwynedd and Clwyd found that while a third had seen an increase in the proportion of women employed over the past five years, only one in five had seen an increase in women in senior management, writes Roland Adburgham.

The survey was carried out for Chwarae Teg/Fair Play, a pioneering consortium led by the public sector, which is designed to improve women's position in the workforce.

Researchers interviewed 865 women in the four counties and found that almost a third felt they had no skills and only 15 per cent had received any advice on training.

Chwarae Teg, which after a pilot project in south Wales last year was extended this year to include Dyfed and north and mid Wales, also interviewed training organisations. It found that lack of childcare often prevented women who wanted to take up training from doing so.

This month, Chwarae Teg urged the Welsh Office to support an "under fives" childcare initiative to provide 5,000 new places to help women return to the labour market.

The kind of initiative encouraged by Chwarae Teg is that at Dewhirst Ladieswear which employs nearly 600 people, mostly women, at Cardigan and Lampeter. Infants come to work with their mothers and are then taken by bus to a nursery, 'Kidz Children's Services.' They are bused back to the factories at the end of the working day. The nursery places are heavily subsidised by Dewhirst.

■ TOURISM

Essential part of economy

ON A Saturday in mid-July, the streets of Tenby in south Pembrokeshire, one of the Britain's more charming seaside towns, are bustling with people.

The colour-washed regency houses on the clifftops look spruce and, on the beaches below, the sands are speckled with holidaymakers enjoying the afternoon sun. Some are even swimming. In the evening, the Mews bistro, serving "home-cured sushi-style Teifi salmon," is packed with customers.

Yet there is no lack of "vacancy" signs in the guest houses, and the apparent well-being disguises high local unemployment. Tenby is a small town, of only 5,000 permanent residents, but, with its neighbour Saundersfoot, has the largest concentration of hotel and guest house rooms in Wales after Llandudno on the north coast.

The importance of tourism to Tenby in particular, and Wales in general, is shown by the fact that, despite the recession, which has restrained the number of holidaymakers, those employed in the Welsh industry rose from 72,000 in 1989 to over 79,000 in 1991, more than 8 per cent of the total workforce. But the issue now is: what type of tourism is wanted, given that the "bucket and spade" brigade, as at Tenby, is the most easily lured by foreign sun?

Last year's national garden festival at Ebbw Vale attracted about 1m visitors from outside Wales, and in the future large numbers may be drawn to urban destinations such as Cardiff Bay. But for many visitors – the "heritage and hikes" variety – much of the appeal of Wales will remain its uncrowded coast and countryside.

Tourism is of especial value to these rural areas, where inward industrial investment is hard to win. In Pembrokeshire there is the added need to replace jobs lost by the rundown of military bases. In Haverfordwest, the old county town, with a population of 12,000, half a dozen shops are closed in the high street alone. Work opportunities are scarce: the Job Centre's window has seven vacancies, five for part-time jobs such as cleaners at £3 an hour.

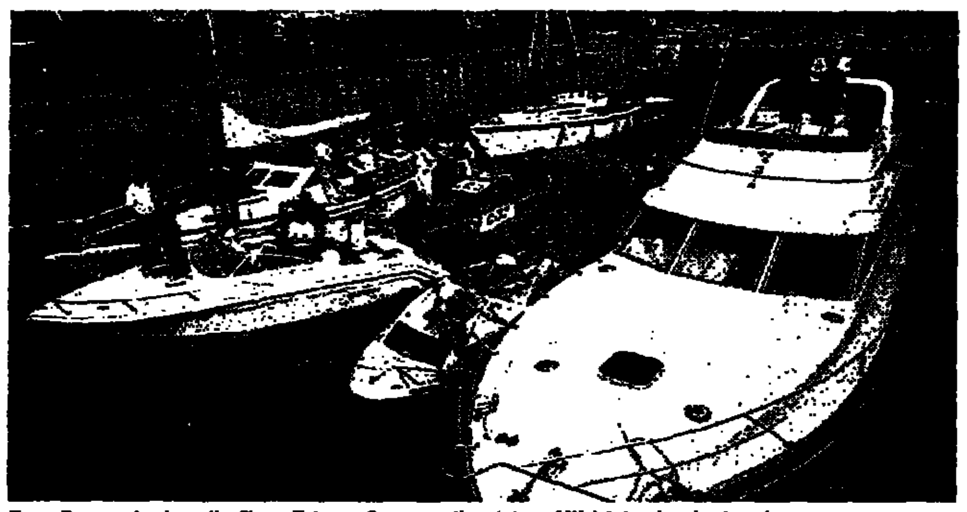
With the splendour of the Pembrokeshire national park and its coastal path, the potential to increase tourism is great. Travellers from England can reach Haverfordwest in two hours from the Severn bridge, with dual carriageway and motorway most of the way. They can even come by rail. But the prime need, as elsewhere in Wales, is to have more visitors throughout the year, rather than crowding into the peak season, and those who spend more, which in particular means ones from abroad.

Wales has fared badly in attracting overseas visitors. There were 620,000 in 1991, only 3.7 per cent of the UK total. In contrast, Scotland had 9.5 per cent, although many would argue that Wales offers as much in terms of scenery and history. Its distinctive culture and language is epitomised by the national Eisteddfod at Builth Wells, Powys.

For the first time, the Wales Tourist Board has been allowed this year to market itself overseas separately from the British Tourist Authority – something Scotland has been able to do since 1984. In the US, from where more visitors to Wales come than from any other country, the WTB has appointed 1,200 agents. This month, promotional videos have been shown on British Airways long-haul flights.

"We have to develop an image for Wales and make potential visitors a more saleable proposition: not just 'Come to Wales – full-stop' but Come to Wales... for a reason, such as 'Come and stay in a national park,' or 'Come and stay in a historic castle town,'" says Mr Paul Loveluck, the WTB's chief executive.

This is in line with the board's new five-year strategy, launched earlier this summer. The strategy report wants



Tawe Barrage Lock on the Tawe Estuary, Swansea: the status of Welsh tourism is changing *Picture: Ted Giffords*

Wales to attract more independent and business visitors, people taking second and short-break holidays and, especially, overseas visitors. It believes that the number of the latter can increase by 7 per cent a year, a much higher rate than for British visitors.

The report recognises that the non-Welsh can have a poor perception of Wales as a holiday destination – "We have a very good image with existing regular visitors, who are very loyal," says Mr Loveluck. "But the image is not good with people who have not been or who came many years ago. They may have found that there were not satisfactory facilities, or sometimes the welcome was indifferent."

One scheme to counter this is a staff training course called Welcome Host.

"It's frustrating," says Mr Loveluck, "that there can be an automatic assumption that someone on a factory line is more highly skilled and has more status than a waiter."

But the status of tourism is changing: "Four years ago we had no university department in Wales concerned with tourism," says Mr Loveluck. "We now have three chairs."

Although Wales has only a handful of top-class hotels, the standard of cooking and variety of menu have improved. Wales musters 37 pages in the *Good Food Guide*, compared with 24 pages 10 years ago.

There are now such finds as Jemima's near Haverfordwest, a tiny restaurant where one can have elderflower spritzers, home made bread and home-grown vegetables with local fish such as pollack. In Solva, a village tucked into a Pembrokeshire coastal cleft, the restaurants have modish names – The Old Pharmacy and Le Papillon Rouge. Pubs have become friendlier: "Children welcome" is a common sign.

Restaurants are one type of business that can apply for project aid from the WTB, and aid is the catalyst for well-managed tourist development. Between 1987 and 1991, no less than £25m of European regional development fund money has been allocated to tourism projects in Dyfed (which includes Pembrokeshire), Gwynedd and Powys alone.

There are WTB schemes for improving self-catering enterprises (two-thirds of all bed capacity in Wales), upgrading hotels and guest houses, and for encouraging farm holidays and activity centres. Since 1988, the board has channelled £18.7m in financial assistance to 1,256 projects, which it calculates stimulated an overall investment of £143m.

In one project, the Pembrokeshire national park authority, in partnership with other bodies, has worked on a £1m scheme to restore Tenby's historic frontages. A recent initiative has been the West Wales Task Force, launched last year by the Welsh Office to alleviate the impact on employment of the rundown of RAF Brawdy and the naval base at Trecwn near Fishguard.

So far, the task force has helped 76 projects since it started, with £1.42m of grant. Its biggest single grant is £118,000 towards the upgrading to "de luxe" standard of the Atlantic Hotel on Tenby's esplanade.

Last year, a grant by the Countryside Council for Wales helped the Royal Society for the Protection of Birds to buy Ramsey island, off St David's Head. The RSPB restricts landings to 40 people a day to minimise disturbance to the cloughs, guillemots, kittiwakes, and the largest colony of Atlantic grey seals in southern Britain.

There is a moral there for Wales as a whole: tourism is an essential part of its economy, but it must not be at the expense of the environment which is its greatest asset.

Roland Adburgham

A revised flight plan

BA's new plant, opening today, has a Japanese feel, reports **Daniel Green**

At a bleak airport overlooking the Bristol Channel, British Airways is launching an adventurous attempt to transfer Japanese ideas on the management of manufacturing to a maintenance operation.

The airline has built a £70m maintenance hangar on a greenfield site at Cardiff airport in south Wales.

Officially opened today, British Airways Maintenance Cardiff (BMAC) is devoted to looking after Boeing 747 aircraft, BA's most important model which flies on money-spinning, long-haul routes.

The project was earmarked from the start as a testbed for management ideas that might be extended to other parts of the company.

"We set out quite deliberately to emulate other greenfield sites: to go back to basics and structure the working relations and the shop floor ideally," says Alistair Cumming, chairman of BMAC, BA's director of engineering and a member of its executive board of management.

South Wales seemed suitable because the local population is familiar with the Japanese management style in local factories owned by Sony, Hitachi and Panasonic.

The results of the strategy are a striking piece of architecture in which offices and hangar are naturally lit, and a long list of management ideas under test. The schemes new to BA include:

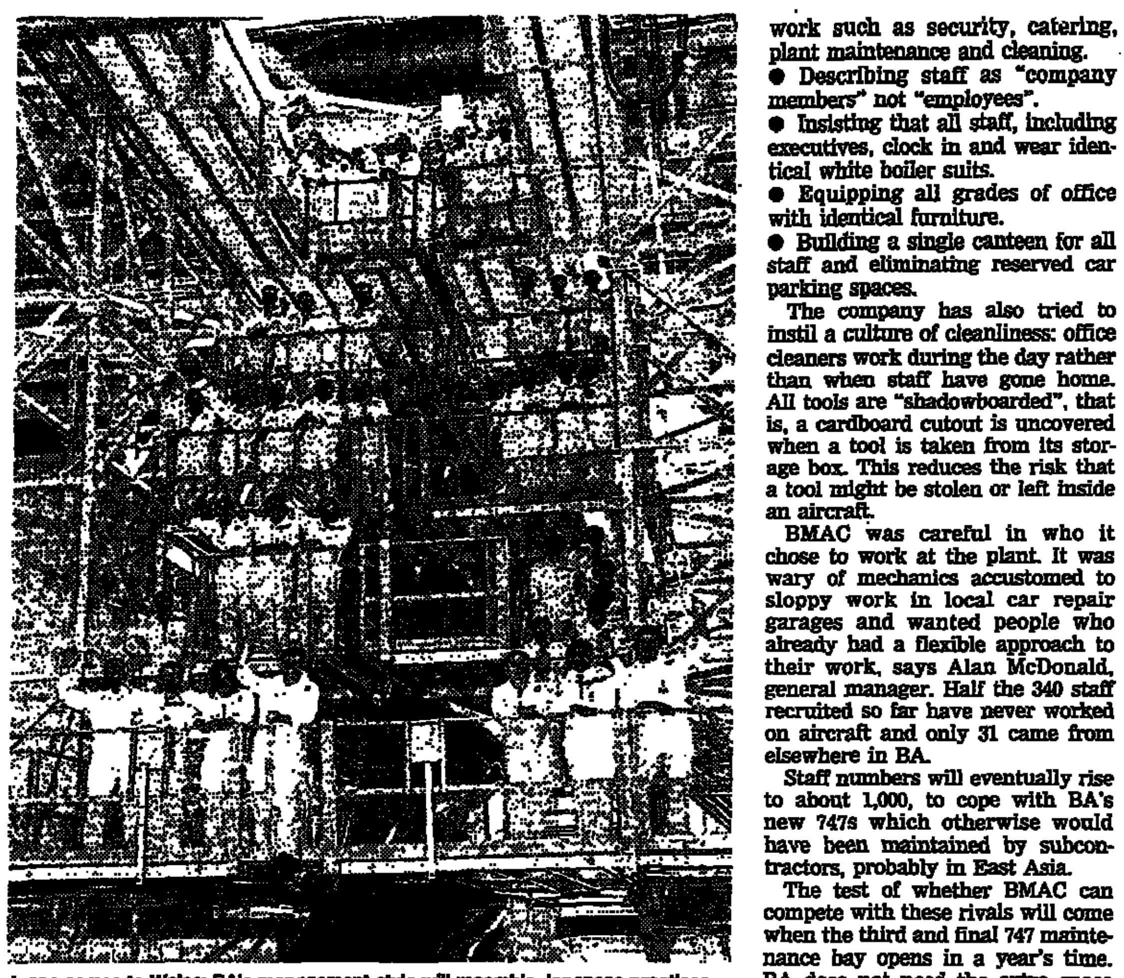
- Breaking down demarcations between mechanics, engineers and avionics experts as far as skills permit. The idea is encourage staff to be able to do each other's jobs as much as possible. Training programmes are designed to break down barriers further.
- Ensuring that all staff, from receptionists to managing director, spend at least one day in every quarter on the hangar floor working on aircraft.
- Creating a single union agreement with the AEEU, the general engineering union, outside BA's existing multi-union arrangements; the wage bill is more than 20 per cent lower than it would have been at London's Heathrow airport for similarly qualified staff.
- Subcontracting all non-core work such as security, catering, plant maintenance and cleaning.
- Describing staff as "company members" not "employees".
- Insisting that all staff, including executives, clock in and wear identical white boiler suits.
- Equipping all grades of office with identical furniture.
- Building a single canteen for all staff and eliminating reserved car parking spaces.

The company has also tried to instil a culture of cleanliness: office cleaners work during the day rather than when staff have gone home. All tools are "shadowboarded", that is, a cardboard cutout is uncovered when a tool is taken from its storage box. This reduces the risk that a tool might be stolen or left inside an aircraft.

BMAC was careful in who it chose to work at the plant. It was wary of mechanics accustomed to sloppy work in local car repair garages and wanted people who already had a flexible approach to their work, says Alan McDonald, general manager. Half the 340 staff recruited so far have never worked on aircraft and only 31 came from elsewhere in BA.

Staff numbers will eventually rise to about 1,000, to cope with BA's new 747s which otherwise would have been maintained by subcontractors, probably in East Asia.

The test of whether BMAC can compete with these rivals will come when the third and final 747 maintenance bay opens in a year's time. BA does not need the extra space and BMAC will try to sell its services to other airlines. But by then the low-cost base strategy will have advanced another notch. Today, only one in five employees is in support and administration. Next year it will be one in six.



Japan comes to Wales: BA's management style will resemble Japanese practices

Burying the office in paperwork

A new month approaches and wads of computer print-outs from the personnel department are hitting managers' desks throughout the UK.

With the spread of computerised personnel systems, which are often linked to payroll systems, the potential for collecting, storing and disseminating information on employees is vast. Apart from basic data on staff numbers and how much they cost, information may also be stored on training and productivity.

The problem is that many personnel departments appear to be churning out reports and sending them to managers with little or no consultation. A new study by the University of Sussex-based Institute of Manpower Studies* finds that managers either throw away the reports, or have to wade through reams of irrelevant material before alighting on the figures they need.

In a survey of 200 managers conducted by IMS, nearly a third of managers were either very dissatisfied or dissatisfied with the type of information they received from the personnel department. Best provided were data on staff numbers and their pay and benefits; the provision of data on productivity, absence and skill levels were all identified as needing improvement.

A recurring theme in the report is lack of communication between those producing and receiving information. IMS found that the personnel systems managers it interviewed for the study were focused almost entirely on "the system". Most were planning to incorporate more data and some were thinking of a new system. Not many mentioned more communication with managers as a future priority.

Diane Summers

**The Information Gap: a human resource management view by Iris Morgan. IMS report 246, 1993. Available from BEBC Ltd, PO Box 1496, Parkstone, Poole, Dorset BH12 3YD. Tel: 0202 715555. Price £30*

CHRISTOPHER LORENZ

'Turf warfare' among the tourists

ONE of the prime competitive advantages of multinational companies over regional or local rivals is supposed to be the ability to transfer knowledge and experience between their operations across the globe. Yet far too many of them are singularly inept at this "worldwide learning", as business school academics call it.

Take General Motors and Ford.

In the 1980s GM's European operations were transformed under Opel's leadership from laggard into thriving powerhouse. Yet back home in Detroit things went from bad to worse, and then awful. The parent company was stubbornly resistant to any form of change, but especially to the notion that it had anything to learn from an upstart offshoot several thousand miles away.

Only when GM had slumped almost to its knees a couple of years ago was Jack Smith, an American who had run the European operation some years before, finally able to start importing some lessons from there.

His most dramatic European import, a few months before he became chief executive last autumn, was José Ignacio López de Arriortúa, who had slashed Opel's costs and boosted its quality by revolutionising relations with its suppliers.

What followed is fast becoming the stuff of legend – or nightmare, depending on your point of view. López stayed less than a year, and then decamped for Volkswagen.

GM's ire at this, which waxed still further this week as extreme allegations flew between it and VW, is not just over his alleged stealing of its secret plans. It is also because, in a more general sense, he embodies much of the Opel learning that the parent company still needs so badly.

By contrast, one might expect Ford's internal difficulties with transatlantic learning to seem anodyne. But they have had their own share of intrigue, and are also more instructive for other companies with similar problems.

For one thing, the necessary flow of learning should have been far easier than at GM, since it was in a more acceptable direction for the newly-revitalised Ford US: from itself to its ailing European offspring. For another, Ford tried far harder than GM to achieve the flow.

A key facet of its problem, the incessant turnover of top managers at Ford of Europe and the consequent lack of a consistent push for change, is revealed in vivid inside detail for the first time in a discussion paper by Kenneth Starkey, reader in organisational analysis at the University of Nottingham's school of management and finance.

Borrowing a phrase from many European cynics within Ford of Europe, Starkey calls the phenomenon "executive tourism": the constant recycling of senior American managers, especially through the two top posts of chairman and president, as they clambered their way up the ladder towards greater things back home in Dearborn.

López embodies much of the Opel learning that General Motors still needs so badly

In Ford US there was considerable stability in the equivalent two jobs: the pair most credited with its revival, Don Petersen and Harold Poling, were in post for nine and six years respectively between 1980 and 1989, and in tandem for five. The creative tension between them was also vital: Petersen was the visionary champion of change, while the efficiency-minded Poling "kept the company's feet on the floor", as Starkey puts it.

In Europe there were lots of Polings but no Petersen – apart from one change-minded chairman whose credibility with Dearborn was damaged by the early problems of the Ford Sierra.

Not only that, but the instability of the chairmanship and presidency gave enormous clout to the one manager immediately beneath them who did stay in post throughout the 1980s, Bill Hayden, the vice-president of manufacturing. Hayden represented Ford's old obsession with cost, efficiency and control. And he resisted "programme management" – the vital bridging of design, engineering, production and other specialist departments – until the late 1980s, when his change of heart gave it a very belated boost.

Starkey's account of all this is replete with remarkable quotations from Ford managers at all levels. One of them complains that the European executive committee travelled around "as a cloistered group", and that "they never meet plant managers – they're like high-level tourists".

Hayden groans about top managers constantly winging their way over from the US and back again. "When they arrived I'd usually go and introduce myself," he says. "But with time – it would register that a new guy had arrived but I didn't bother going down the corridor to knock on his door. The business went on as before, new chairman or not."

A further factor also put a brake on change in Ford of Europe: that for much of the 1980s its profits kept its parent afloat. "The pressure was to keep producing profit, and keep doing the job that you're doing," says one manager.

So although various US change initiatives were exported to Europe, and adapted for local consumption, advocacy of them was not nearly as strong. The result is that Ford's European arm is in far worse shape today than its parent.

At GM, where the boot is manifestly on the other foot, executives attribute much of its European success to a similar combination of top-level stability and championship of change as at Ford US. As Starkey argues, if top teams want to avoid "groupthink" they must encourage constructive dissent within their organisations, rather than the all-too-common practice of "turf warfare".

Smith and López clearly thrived on that "constructive dissent", and GM was feeling the benefit mightily. Which is partly why the Detroit giant feels it has lost so much by López's defection, and such a bitter form of turf warfare has erupted with VW.

PEOPLE

TDG finds fourth finance director

Alan Cole, chief executive of Transport Development Group, has found another finance director to replace Paul Kilduff who left in February after only seven months in the job. He is Stephen Bentley who moves from chemicals distributor Ellis & Everard where he had been in the finance function for the past five and a half years.

This is Cole's fourth finance director since he arrived at TDG three years ago. The first took early retirement and the second was promoted to look after TDG's troubled French operations.

Bentley says he is "aware of the changes" but that he also understands the reasons for them. Meanwhile Cole is cagey as to how he has attempted to avoid making another mistake: "Both men [Kilduff and Bentley] are graduates, accountants and have been finance directors. You make the best choice you can at the time. Bentley comes with a good track record from a medium-sized company. What can I say?"

The new man will not be short of a challenge when he arrives in early autumn. TDG recently announced it was closing its long distance French transport subsidiary at a cost of £11.7m. It is also trying to recover $15.8m of the monies due when it sold its US operation Willig Freight Lines to a consortium of senior management. Cole says the consortium has been trying to raise the money through "a complicated bond issue", and has negotiated a new deadline for payment of September 31.

A chartered accountant by training, 40-year-old Bentley spent nine years at Tricentrol, latterly as corporate finance and marketing executive. He moved to Ellis & Everard when the oil company was taken over by Arco.

■ Jeffrey Hume, formerly group controller of BTR Construction Services and group treasurer of Hawker Siddeley, has been appointed group financial director of HOWDEN GROUP; he replaces Ronald Watson. Alan Maclachlan, company secretary, is also appointed to the board.

On the day that Andreas Whittam Smith stepped down as chief executive of Newspaper Publishing, publisher of The Independent and the Independent on Sunday, Sir Kit McMahon (above), a former chairman and chief executive of the Midland Bank and a former deputy governor of the Bank of England, was appointed a non-executive director. He is already a non-executive director of Aegis and chairman of Coutts Consulting Group.

Bancroft Clark

If the shoe fits, wear it, would be a suitable epitaph for Bancroft Clark, the man behind the expansion since the Second World War of shoe manufacturer, C&J Clark. Chairman from 1942-1967, Bancroft Clark died at the age of 91 and was buried yesterday in Street, Somerset, where his great-grandfather first started making sheepskin slippers.

It was Bancroft who had the foresight to develop the piece of foot folklore familiar to millions – the Clarks foot-gauge – just in time for the baby boom. "On this idea the vast expansion in our children's business was founded," he once proudly claimed. Associates attribute Clark's firmer footing in the latter half of the century, when UK shoe manufacturers were assailed by cheaper imports, to Bancroft's foresight.

A stern disciplinarian, Bancroft is believed to have been intensely irritated by the row among Clark's shareholders which threatened to throw the family-owned company into the arms of conglomerate Berisford International. However, age and illness prevented "Mr Bancroft", as he was known to employees and village residents, from taking an active role in resolving the dispute.

Telegraphy

The rise of Stephen Grabiner at The Telegraph, publishers of the Daily and Sunday Telegraph continues.

He has been appointed deputy managing director responsible for the day-to-day management of the company's operations. Grabiner, 34, will report directly to the managing director, Joe Cooke, who will continue to have overall responsibility for the business.

The new deputy managing director came to the Telegraph in the early days of Conrad Black's ownership and stayed on to become marketing director in October 1986. In April he became acting managing director while Joe Cooke was ill and joined the board at that time.

Two new directors have also been appointed. They are Len Sanderson, the 39-year-old Telegraph advertising director and Stephen Jarislowsky, chairman and chief executive of Jarislowsky Fraser, a Canadian pension fund management company. He serves as The Telegraph's representative on the board of Southam, in which The Telegraph recently bought a large stake.

■ Terry Twigger, formerly director of finance, Lucas Aerospace worldwide operations, has been appointed director of finance of MEGGITT. Paul Ryder, formerly group md of AB Electronics, has been appointed md of Meggitt's controls division.

■ Nancy Thomson, founder of Thomson Laboratories which subsequently evolved into Thomson-MTS, has been appointed group md of MTS Environmental Group, a subsidiary of BODYCOTE INTERNATIONAL.

Other non-executives

■ Pierre Dufournier has retired from ARJO WIGGINS APPLETON.

■ John von Spreckelsen, chief executive of Budgens, at GLOBAL.

■ David Kendall, chairman of Bunzl and former executive deputy chairman of British Coal, and James White, ceo of Checkers Drive-In Restaurant Inc, at DANKA BUSINESS SYSTEMS.

■ Rod Ackrill as chairman at SYMONDS ENGINEERING in place of James Ruggles who remains md. George Rowley has retired.

■ David Young, former deputy chairman of Touche Ross, as chairman at LOMBARD CONTINENTAL.

Bayreuth Festival / **Max Loppert**

Mixed feelings for Wagner as showbiz

The first three offerings of this year's Bayreuth Festival comprise, among other things, a brisk and varied tour of current Wagner production styles. The new *Tristan und Isolde* (which I described on this page earlier in the week) is staged as a response – in most ways a coolly questioning, distancing, even disaffected one – to text quite as much as music by a modern German theatre intellectual, the noted playwright Heiner Müller. *Tannhäuser* followed, in a revival of Wolfgang Wagner's own briskly efficient but essentially ugly and insubstantial show, a dim, ossified late-1980s reminiscence of the work he and (far more importantly) his brother Wieland were doing here two and three decades earlier.

And then the revival of *Der fliegende Holländer*, produced by Dieter Dorn. This purveys the brand of zany 1990s theatrical legerdemain that we have learned (tentatively) to call postmodern: all flat planes, bright colour-contrasts, sleight-of-hand breaches of conventional proscenium-arch decorum, mobile parts sailing insouciantly around the stage space, and in general an air of "naive", film-influenced theatricality that creates new modes of Wagner spectacle, entertainment and story-telling.

I was put in mind by this *Fliegender Holländer* of the (sadly aborted) recent Scottish Opera *Ring*, produced by Richard Jones. The difference – British readers and opera-goers will hardly need telling – is that that was achieved on pence and ha'pence, whereas for Dorn's and designer Jürgen Rose's moving machines, and their *Wizard of Oz*-style rotation tricks during the Senta-Dutchman duet, mega-Deutschemark expenditure must have been the order of the day.

The results are certainly enjoyable, breathtaking even – this is by a long way the most *showbiz* Wagner I have seen in the august Wagner temple (Peter Hall's elaborately aerial 1983 Ride of the Valkyries not excepted). Unlike the best of Richard Jones's *Ring* scenic inventions, however, the effects seemed devised only to dazzle. Little light was shed on the characters, who were brought on in countless striking ways (and costumes) but not meaningfully confronted. In *Tannhäuser* Wolfgang at least concentrated his cast on expressive reaction and ensemble relationship; for all their period dress these *Holländer* figures belong to a world of sci-fi, comic-strip or cartoon video.

Encountering in quick succession three such Bayreuth performances, in a theatre designed to aid the spectator in focusing on sounds, sights and meanings, had the consequence of eliciting from me some pretty old-fashioned operatic affirmations. In the end, of course, it is the most potent Wagner conducting and singing that win real results.

After a while the whizz-bang visual pleasures of this *Fliegende Holländer* began to pall, because Giuseppe Sinopoli seemed largely unable to tap the springs of rhythmic vitality and colour in the music – he kept the surface active, left the interior unexplored. (Pit and stage were often out of kilter.) And Bernd Weikl (title role) and Sabine Hass (a blowzy-toned Senta with powerful, sometimes hideously ugly notes at the top of the staff) emitted the text in bits and pieces, bumps and thumps – not lines and phrases.

Tannhäuser, by contrast, had a conductor – Donald Runnicles – who knew how to keep all the opera's parts in flowing, smoothly interlocked, dramatically acute action, even the opera's inherently cumbersome, creaky, long-winded parts. The singing was acceptable rather than distinguished, apart from a wonderfully rounded, full-grained Landgrave from the veteran bass Hans Sotin (his Daland was also by miles the best thing about the *Holländer*), but at least it was always directed toward tapping the expressive potential of the musical phrases.

Here are a couple more old-fashioned affirmations. The choral singing, trained by Norbert Balatsch, was in both early Wagner operas of incomparably fine quality: robust, resonant, single-minded in delivery. Precisely purposeful, thorough-going preparation characterised it – and, indeed, characterised all three opening shows.

The festival ethic remains very much alive and well in Bayreuth: for this reason, and in spite of all the mixed feelings the place and its *raison d'être* inspire, a visit here is always a special experience.

Festival continues until August 28.

Paris Exhibitions / **Patricia Morison**

Focus on the finer things

Last week I made some disparaging remarks about the currently dishevelled condition of the Palais du Louvre in Paris. Now is the moment to make partial amends by recommending two rewarding exhibitions in the Louvre's Pavilion de Flore (enter on the Tuileries side by the Porte Jaujard).

You need to move quickly to catch *Antonello da Messina's "Christ at the Column"* which closes on August 9. It will be worth it to see a model of the kind of small, highly-focused exhibition on which museums should increasingly be concentrating their resources.

Last year, the Louvre bought "Christ at the Column" by Antonello, the 15th-century Sicilian master, for FFr42m (£4.78m). It is a small, grimly intense painting of the head and shoulders of the weeping Christ, a noose round his neck. There are only about 40 known paintings by Antonello. The exhibition traces his contribution to the evolution of the "Man of Sorrows" type of single-figure devotional image required by patrons for private worship. As evidence of Antonello's influence we also see Mantegna's sublime "Ecce Homo", borrowed from the Musée Jacquemart André.

Pure, undemanding enjoyment is provided by the Louvre's principal show this summer, *French Master Drawings from the Pierpont Morgan Library* (until August 30). The sponsor, J.P. Morgan & Co., has brought 125 drawings to Paris to mark 125 years of the House of Morgan's involvement in French financial life. The Morgan Bank's finest hour in France was 1870 after the country was on her knees after suffering defeat in the Franco-Prussian war. Alone among the London banks, Morgan & Co. was prepared to help with a £10m loan. Pigeons took documents to and from the blockaded city and one particularly heavy batch went in by hot air balloon. J. Pierpont Morgan, legendarily avaricious collector and founder of the Library in New York, adored France and all things French. In the 1900s he started to amass drawings; more have since been added to make this one of the finest collections in the US.

Lovely things abound in the exhibition, not least the earliest exhibit, a remarkable little sketchbook made in about 1400 from wafer-thin sheets of boxwood. Poussin, Greuze, Claude, and six Watteau drawings of delightful spontaneity are just a few of the particular pleasures of a selection which ends with Gauguin and Redon. (The show runs until until August 30 then moves to the Pierpont Morgan Library, New York, September 5 – January 2.)

If you are interested in 19th-century Orientalism I recommend *Album de Voyage* at the Musée Hébert. This is the obscure but atmospheric studio-residence of Ernest Hébert, a grandee of the art scene in late 19th-century France. The exhibition is on until September 27; the museum is at 85, rue de Cherch-Midi (open from 12.30 on weekdays, closed Tuesdays).

In 1868, six French painters, a photographer and one Dutchman set out on a five-month journey through the Levant. Two decades after Delacroix's delirious reaction to the colour, grace and nobility of native life in Morocco, Orientalist painting was at its peak. Professional artists descended on the Levant, hungry to sketch, take photographs and buy studio props.

Sketches, paintings and photographs of the trip have been brought together from collections in France and the Netherlands. Most of the work which survives is by Gérome, leader of the trip, and Léon Bonnat. Both were to become enormously successful academic painters. Whatever one feels about their full-scale productions, their small oil sketches of landscapes in Egypt and Palestine are most attractive.

The same cannot be said for the tedious, careful studies of bedouin by the Dutchman, Willem de Famars Testas. He, too, did well out of the experience and became the first and premier Orientalist of the Netherlands. His journal for 1868 was recently discovered and is published (in French) in the catalogue (FFr280). It appears that the Middle East traveller was not obliged to rough it. A birthday feast on Mount Sinai cooked by the dragoman consisted of more than 20 dishes including conserved dishes of artichokes, turkey, fillet of beef, truffled partridges, chicken, woodcock, and four different puddings.

Bonapartists will want to revisit the lovely *Musée de Malmaison* (take the RER to Grande Arche) where *Queen Hortense: An Artistic Woman* describes the joys and sorrows of that lady. Daughter of Empress Josephine and Queen of Holland, Hortense possessed an above average aptitude for the arts, from writing novels to musical composition. (Show ends September 27; closed Tuesday and 12-1.30 daily.)

One final suggestion for your Parisian wanderings; from August 1, the "Lady and the Unicorn" tapestries, one of the most famous works of art of the entire middle ages, will go back on display in a new, halogen-lit installation at the former Musée Cluny, which now goes by the altogether less evocative title of Musée du Moyen Age.

Ballet / **Clement Crisp**

A gift for Dame Ninette

Alain Debreuil (centre) as a dignified Job

Birmingham Royal Ballet has marked the 95th birthday of Dame Ninette de Valois with a long-overdue revival of *Job*. She made this "masque for dancing" in 1931 – Vaughan Williams insisted that his score was not for "a ballet" – and in it we see, still powerful, the pre-eminent qualities of her choreography. De Valois' wide experience of the theatre had, by 1931, taught her the value of clarity and simplicity in movement. In realising a theme inspired by William Blake, she saw how sculptural images, so strong in his drawings, might be realised in the then fashionable form of dance *plastique*. There resulted choreography as forceful and dramatically vivid as its score and a work which long held a special place in the Sadler's Wells repertory.

Ballet-goers of my generation grew up with *Job*, and with an understanding of the dignity of Dame Ninette's dances. After 20 years without performance, this revival – exemplary in style and feeling, thanks to the eagle eyes of Michael Somes, Joy Newton and Jean Bedells who have staged it – reasserts the continuing vitality of de Valois' creations. (It is time *Rake's Progress* was brought back to the stage, and I think that BRB's public would rejoice in her wonderfully funny and imaginative *Prospect Before Us*.) As always, score and design are essential companions in de Valois' theatre. The Vaughan Williams score is thrilling; the John Piper designs, which were commissioned for the post-war Covent Garden revival, are magnificent on their own terms, and echo Blake – and Samuel Palmer – to beautiful effect. *Job* is, in sum, a grand achievement; it is a salutary reminder of how our national ballet once involved major British artists in creations of enduring significance.

The Birmingham cast on Wednesday night was fine. Satan's is the central role, and Michael O'Hare gives him menacing physical weight. Dolin, the part's creator, was nobly evil; Helpmann, who dominated the role for years, was malevolently beautiful. O'Hare is a worthy successor to these. Surrounding him, we see the serene dances of the angelic host and the brilliantly imagined activities of Job's comforters, the Pestilences and Messengers. (How well de Valois used hands, to point and threaten and mock. With what acute sensibility did she pare away everything except essential gesture and movement. The least action is significant). I admire Alain Dubreuil as Job – ideally simple and dignified – and I salute the entire cast. At curtain fall we cheered Dame Ninette in her grand-tier box, for we owe her everything, and not least her ballets.

BRB's triple bill also brought the first *London* showing of the company's revival of Massine's *Choreartium*. Eighteen months ago I reported on this brilliant rescue from Birmingham, where it has been splendidly supervised by Tatiana Leskova of the de Basil Ballets Russes. *Choreartium* was the second of the symphonic ballets with which Massine (and de Basil's company) stormed into the public's heart in 1933. The score is Brahms' fourth symphony, and Massine clothed it with movement that explored its formal procedures, and imbued them with strong if undefined emotion. Surging blocks of activity; a line of women grieving through the second movement; a pastoral interlude; a final outburst of heroics: these are the obvious matters of the piece.

More intriguing is Massine's highly subjective – and, be it said, theatrically convincing – response to Brahmsian melody and texture. Because Massine throws himself into the creative process – and drags his cast gloriously in his wake, racing along on the crest of the choreography's feelings – we surrender to the work. It is wild, intensely *Russian* and, ultimately, exhilarating. To tastes formed by Balanchine's response to music, it is also completely over the top. But its drive and passionate self-confidence (it could be superbly danced by the Bolshoi Ballet) win us.

Wednesday's performance was devoted, if a little ragged – the piece needs to be run in during several showings – and BRB's artists deserve much commendation. The new designs by Nadine Baylis, as I have earlier reported, are beautiful, apt. Most important, Mme Leskova's revival is true, and honours Massine's significance to the ballet of our century. My companion was a member of the original cast: she approved whole-heartedly of the staging.

This imaginative triple bill (which is being given only three showings) opened with MacMillan's *Concerto*. It looked clean and clear in production, but it, too, needs a run of performance to polish its rough edges and some uncertain dancing from its soloists. Excellent accounts of three major scores came from the Royal Ballet Sinfonia under Paul Murphy.

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English National Ballet, meantime, has taken up summer residence on the South Bank in London. This week, *Swan Lake* is on offer. (How, I wonder, could things be otherwise). The staging is Raissa Struchkova's recension of the one-time Bolshoi Ballet version, sound and happily traditional. It looks rather boxed in on the Festival Hall's shelf, and it needs stronger central performances than those I saw on Wednesday afternoon from Trinidad Vives and Tamas Solymosi. My greatest pleasure came from the dancing of a corps de ballet swan, who closely resembles the very young Lynn Seymour, moving and posing with the same melting grace.

The Birmingham Royal Ballet is at Covent Garden with varied programmes until August 7. English *National Ballet* is at the Royal Festival Hall with varied programmes until August 7.

Theatre / **Malcolm Rutherford**

A Yankee makes merry in England

I have written before that one of the great joys of the English summer – even better this year than cricket – is the Open Theatre in full swing at London's Regent's Park. So it is with the Rodgers and Hart musical *A Connecticut Yankee*. If you don't know Mark Twain's delightful story about the east coast American at the court of King Arthur, read it on holiday. It is much more fun than Huckleberry Finn. But it will do no harm to see the musical first.

A Connecticut Yankee could have been written for outdoor production, especially as night falls and there is a total eclipse of the sun which saves the Yankee from almost certain execution by immolation. Actually, this scene should be even better as the summer wears on. At the end of July in London, it is not quite dark enough for the full effect.

Alastair Muir

Anna Nicholas: a deliciously wicked Morgan Le Fay

The musical is not as subtle as the book. Corny would be a more accurate description, but the corn is of a high order. When Sir Lancelot's old armour is wheeled on stage, it is described as Esquire Magazine's idea of what the well-dressed man was wearing in the year 543.

Quite the best sequence comes with the entry of Anna Nicholas as Morgan Le Fay. Ms Nicholas has played the rejected bride-to-be when we were still in the US Navy in the 20th century at the start of the show. Now she is magnificent, dressed in scarlet and black carrying a riding crop and occasionally showing a leg. She sings a song called "To Keep My Love Alive" which has the audience straining to catch every clever word. Never the bridesmaid, always the bride, Morgan Le Fay explains that the reason she has not been unfaithful to her husbands and lovers is that she bumped them off before the need arose. When ill-at-ease, she kills at ease.

The trick of the song is that it combines romantic music with a cerebral lyric. Stephen Sondheim plainly learnt a lot from it. There are other treasures. I liked the rhymes: venison and Tennyson, sweethearts and indiscreet hearts, damn a lot and Camelot, even, stretching it a bit, possibilities and ill-at-ease. Unusually for Regent's Park, the show compels attention from the beginning. Not even the external distractions can compete with the boisterousness of the US Navy. Once the Navy has established a beachhold, it is natural to slip into the more sentimental mood of "My Heart Stood Still".

Later on, the customary distractions are put to good use. There is a helicopter in the script though not, as in *Miss Saigon*, shown on stage. In Regent's Park it is a customary sound. The aerial feat comes in two miniature light aircraft flying down a wire across the top of the arena. The audience, glancing at the sky for the real thing, applauds – and rightly – this bit of the design by Paul Farnsworth, like Ariel putting a girdle round the earth.

Other parts of the design are a trifle creaky. One would not be entirely surprised if the towers in this Camelot fell down, but it would be in keeping with such a zany show if they did and you can be confident that the cast would rise to it, just as they dealt with Ms Nicholas when she lost her shoe early on. There is a wonderful wizard in Christopher Biggins as Merlin. Ian Talbot, the presiding spirit over the Regent's Park venture, directs. The theatre on the first night was full to the tree-tops, as it deserves to be for the rest of the summer.

INTERNATIONAL ARTS GUIDE

Small wonder that the choice of Hugues Gall to head the Paris Opéra from August 1995 has been so wholeheartedly welcomed. The Opéra has run through eight administrators in 13 years. Since the inauguration of the Bastille four years ago, its annual budget has swollen to nearly FF900m (US$160m), without a corresponding improvement in artistic standards or industrial relations. The Opéra's current president, Pierre Bergé of Yves-Saint Laurent, treats it as a part-time job. It was high time a proven professional was engaged to clear up the mess.

Gall, 53, was the ideal candidate. A former functionary of the agriculture, education and culture ministries, he has inside experience of the French governmental system. He learned the art of opera administration as Rolf Liebermann's deputy at the Opéra in the 1970s. As director of Geneva's Grand Théâtre for the past 13 years, he has earned a reputation as a firm leader as well as a connoisseur of dance and voices. In short, he has the political and artistic savoir-faire for the job.

Although often tipped for the Bastille, Gall kept his distance until he could be confident of strong political backing - in the shape of France's centre-right government, elected in March. The French culture minister, Jacques Toubon, has asked Gall to submit a report on his artistic and financial plans by October 15, taking into account the needs of France's other dance and opera institutions - whose share of subsidy has fallen as the Bastille's has grown. Toubon hopes to announce new statutes for the Bastille next February.

Gall faces a Herculean task. He must restore public confidence in the Opéra, while winning the support of its volatile musical and dance ensembles. He faces a confrontation with the unions over manning and pay, issues that were ducked in the rush to get the Bastille opened on time. He must reach an accommodation with the increasingly powerful Bastille music director, Myung-Whun Chung, whose contract runs till the year 2000 and guarantees him FF10m (US$1.85m) in indemnities if he is forced to leave early.

Gall has already outlined some of his proposals. He wants to redistribute opera and ballet between the 2,700-seat Bastille and the traditional, old-fashioned Palais Garnier. Mozart and the more intimate operatic repertory will return to Garnier, the big romantic ballets will move to the Bastille. Garnier will have to close temporarily for renovation, and something is to be done about the Bastille's acoustics.

In the meantime, Gall has two years of his contract to run in Geneva, where highlights of the coming season include new productions of Carmen (Sep 12), La Cenerentola, Billy Budd and Lohengrin. The Bastille season opens with Der fliegende Holländer (Sep 23) and includes 15 operas, five of which are new productions. The dance programme at Garnier includes new ballets by Roland Petit and Angelin Preljocaj, and a new Béjart work presented by the Tokyo Ballet.

■ EXHIBITIONS GUIDE

ANTWERP

Museum Mayer Can den Bergh The Triumph of Death (1626): a recently-discovered painting by Pieter Brueghel the Younger is on public show for the first time, alongside works by his father Pieter Brueghel the Elder. Ends Dec 31. Closed Mon

Hessen House Story of a Metropolis: a portrait of the Golden Age of Antwerp in the 16th and 17th centuries. Ends Oct 10. Closed Mon

Bouwcentrum Antwerp and the World Fairs 1885, 1894, 1930: original objects, documents and audio-visual material recalling the explosive growth of Antwerp in the late 19th century, and illustrating the links between the port, national industry and the Belgian Congo. Ends Aug 31. Daily

Onze Lieve Vrouwekathedral Antwerp altar pieces of the 15th and 16th centuries. Ends Oct 3. Daily

Middelheim New Sculptures: works by Richard Deacon and nine other major international artists. Daily

DRESDEN

Albertinum Egyptian Antiquities: 400 objects from the Dresden collection, including stone sculptures, religious carvings and everyday vessels, now back on home ground after being taken to Russia as booty after the Second World War. Ends next July. South-West German Art 1914-45: a survey of trends in artistic circles in Stuttgart, Karlsruhe and other centres between the wars. Ends Aug 29. Closed Thurs

Zwinger 18th century Chinese pink porcelain from Dresden collections. Ends Sep 22. Closed Fri

FRANKFURT

Schirn Kunsthalle Eduardo Chillida (b1924): 100 sculptures and 60 works on paper from all periods in the Basque artist's life. Ends Sep 5. Antoni Tapies (b1923): 60 paintings and 50 drawings by the Catalan painter. Ends Sep 5. Daily

Städel Franz Gertsch: woodcuts by the Swiss artist. Ends Aug 8. Dan Flavin: installations 1969-93 by the American artist. Ends Aug 22. Closed Mon

LONDON

Hayward Gallery Aratjara: the largest exhibition of Aboriginal and Torres Strait Islander art ever mounted in Europe. Ends Oct 10. Daily

Royal Academy of Arts Pissarro's Series Paintings. Ends Oct 10. Daily

Tate Gallery Art and Liberation: painting and sculpture in postwar Paris 1945-55. Ends Sep 5. Turner's Painting Techniques. Ends Sep 12. Edward Burne-Jones: sketches from the museum's collection. Ends Nov 7. Daily

Institute of Contemporary Arts Genevieve Cadieux and Lee Miller: the Canadian artist's billboard-size photographs, poised between the erotic and the violent, are shown alongside a selection of Miller's rarely-seen photographs of the aftermath of the Second World War, combining aesthetic invention with shocking subject matter. Ends Aug 30. Daily

MONTPELLIER

Musée Fabre French 17th century Paintings from Public Collections: 130 works by Poussin, Lorrain, Vouet and many others, showing the evolution of style throughout the century. Ends Sep 5. Closed Mon

MUNICH

Villa Stuck Max Beckmann: 190 prints, woodcuts and lithographs 1901-46 from private German collections. Ends Nov 14. Donald Judd (b1928): a collection of furniture designed by the American sculptor, illustrating his attempt to reconcile art and everyday life in minimalist form. Ends Oct 3. Closed Mon

Lenbachhaus Idealism and Nature: 100 drawings and watercolours from the museum's collection of work by Munich artists from the period 1780 to 1850. Ends Oct 3. Closed Mon

MUNSTER

Landesmuseum 1,200 Years of Visual Art in the Bishopric of Münster: altar paintings, scultpures, goldsmiths' work, book illustrations and drawings from the early Middle Ages to the 19th century, illustrating how art and religion went hand in hand in the history of one of Germany's oldest cities. Ends Oct 31. Closed Mon

NEW YORK

Guggenheim Museum Paul Klee: 60 works from the museum's own collection. Ends Sep 19. Rebecca Horn: first full-scale retrospective of the German artist. Ends Oct 1. The SoHo site has Singular Dimensions in Painting: minimalist works from the 1960s and 70s by Ellsworth Kelly, Agnes Martin, Robert Ryman, Richard Serra and others. Ends Aug 22. The main museum is closed on Thurs, the SoHo site on Tues

Metropolitan Museum of Art Drawings from the Getty Museum: 120 works by Titian, Raphael, Fragonard, David, Dürer, Rembrandt and others. Ends Aug 8. Nudes: 30 works from the collection of 20th century paintings, sculptures and drawings bequeathed by Scofield Thayer. Ends Oct. Paul Klee: 26 drawings. Ends Oct. Abstract Expressionism: works on paper from the period 1938-67 by American artists. Ends Sep 12. Closed Mon

Museum of Modern Art Latin American Artists of the 20th century: 300 works by 90 artists from 1914 to the present. Ends Sep 7. Chuck Close (b1940): 15 large-scale screen prints. Ends Sep 28. Pastimes in Prints: an exhibition exploring the depiction of leisure-time activities in printed art from the late 19th century to the 1950s. Ends Sep 28. Closed Wed

PARIS

Louvre French Drawings from the Pierpont Morgan Library: beginning with works from the 14th century, the exhibition reaches its climax with 18th century masterpieces by Watteau, Fragonard and La Tour, and some great names from the 19th century, including Degas, Cezanne and Gauguin. Ends Aug 30. Closed Tues (Pavillon de Flore)

● Cartes musées available at all metro stations and museums, to avoid queuing at 60 museums including the Louvre, Musee d'Orsay and Versailles.

ST PETERSBURG

Hermitage Fabergé : goldsmiths' work produced by the firm of Carl Fabergé from the 1870s to 1918, when he fled the Bolshevik revolution. The collection, drawn from public, private and royal collections in east and west Europe, includes everyday objects, jewellery, smoking accoutrements and imperial Easter eggs, some containing mechanical toys. After the current showing ends on Aug 15, the exhibition moves to Paris (Musée des Arts Décoratifs Sep 24-Jan 2) and London (V&A Jan 26-April 10 1994).

SAARBRUCKEN

Saarland Museum Boris Kleint (b1903): more than 100 paintings, drawings and sculptures by the Alsatian artist who was influenced by Bauhaus, Kandinsky and Klee. Ends Sep 19. Closed Mon

Two of a kind: David Marsh on how secret service chiefs are coping with the post-cold war world

Street war against the skinheads

United Germany is living in an unsafe new world, warns Mr Eckart Werthebach, president of the German domestic security service, the Bundesamt für Verfassungsschutz (BfV) - Europe's most public relations-minded intelligence agency.

In his airy office at the BfV's sprawling Cologne headquarters, Mr Werthebach, a 52-year-old veteran security specialist, ranks as the continent's chief hunter of spies, political extremists and assorted state enemies.

His checked jacket and confidence-inspiring suntan give him the air of a star clinical psychiatrist: a man who takes pride in precise observation of derangement. With aplomb and, when required, humour, he analyses his own anxieties about the changes since the fall of the Berlin Wall.

"Espionage has become less important," says Mr Werthebach, in charge since 1991 of the BfV and its DM230m (£89m) annual budget. "But, overall, both Germany and the rest of Europe have become more unstable. So internal security needs to be defended more than during the time when we had the two power blocs – a situation which had a certain stabilising influence."

Mr Werthebach's main concern is the rise of right-wing German extremist violence, especially against foreigners. "The threat comes no longer from the east but from the overall wave of nationalism in Europe." A recorded total of 1,008 German far-right attacks claimed eight lives in the first half of this year.

Most of these attacks were the responsibility of 6,400 "militant users of force" (often skinhead groups) classified by the BfV as the most aggressive of the 42,700 members of right-wing extremist parties and organisations. Xenophobic violence endangers not just asylum-seekers, but also the state, Mr Werthebach says. In best consulting room manner, he offers reassurance: "They will not be able to eliminate our liberal democracy."

Domestic extremists, together with agents of unfriendly foreign governments, have always been the BfV's targets. The service (literally, federal office for the

Eckart Werthebach: 'Extremism fades when the economy is good'

protection of the constitution) was set up in 1950, with the aim of collecting intelligence on adversaries of the freshly established West German state.

To scotch any idea that the BfV itself uses anti-democratic methods, the agency has an active public relations policy. One brochure contains a diagram illustrating its methods, including secret photography, telephone and post interception, infiltration and electronic eavesdropping.

'The threat comes not from the east but from the wave of nationalism in Europe'

After the collapse of the Soviet Union, many Germans thought the BfV had outlived its usefulness. The agency started to cut its 2,350 federal staff, separate from a further 2,500 Verfassungsschutz employees in the states or Länder. (Britain's secretive domestic security service, MI5, is smaller, employing 2,000.)

In view of the need to deploy more resources against extremism, these plans have now been reversed. "In a few years, we will be back to our old level," Mr Werthebach says.

As far as spying is concerned, he says Russia is maintaining espionage under the auspices of the SWR, the successor to the KGB. "The personnel who were previously used for political work are now deployed to carry out economic and scientific espionage."

Somewhat bizarrely, the BfV is still helping round up former East German spies. "According to information from defectors, there were 5,000 to 7,000 agents of the MfS [the East German state security ministry] in West Germany, of whom about 10 per cent were in sensitive positions. In some cases, they have since been taken over by the SWR. We are pursuing more than 2,200 leads."

Trials will continue, he says, for two or three years. There will be no amnesty until all details of the former East German spy network have been revealed. "If in the [Bonn] foreign ministry or defence ministry there are still informants of the MfS, the former KGB can put these people under pressure to work for them."

Tracking down former East German agents is probably the least arduous of the BfV's post-cold war challenges. Intelligence techniques are of limited use in combating shaven-headed neo-Nazi groups. A second problem is that when the BfV makes a bid to extend activities into new fields – for instance, cross-border crime – the public becomes uneasy that state surveillance is going too far. A third difficulty, Mr Werthebach admits, is that right-wing parties under BfV surveillance, such as the Republicans, can sometimes increase public support by claiming the state is adopting Nazi methods against them.

He says Germans voting for the far right are mostly "protest voters" rather than neo-Nazis. But he adds: "German history makes us look at right-wing extremism more critically than our western partners." Is Germany more vulnerable than other countries to extremism? Mr Werthebach emits a mellifluous chuckle. "The British have a certain calm which the Germans lack. The Germans thus react more hectically to social changes, raising the impression that they have a leaning towards right-wing extremism."

He mentions unemployment and reunification-induced economic problems. "The German experience is that right- and left-wing extremism fades when the economic situation is good. I assume that we will recover economic stability – and extremism will lose its importance."

In the meantime, an institution many thought would fade with the end of the cold war has a chilling new importance. "People say we have never needed the Verfassungsschutz as much as today."

Benefits of being open

Behind the thick spectacles of Mr Arthur Docters van Leeuwen, the head of the Dutch internal security service, there glints professional sharpness, and just a hint of well-educated menace. He describes a "friendly talk" he held with a well-known KGB defector. "You might," he confides, "like to call it an interrogation."

In the solid brown headquarters of the Binnenlandse Veiligheidsdienst (BVD) in The Hague, Mr Docters explains how his employees need aptitude both for unearthing information, and for turning it to profitable use.

These are attributes wholeheartedly embraced by Britain's MI5, on which the BVD was modelled when it was set up in 1949. However, BVD employees are also required to espouse a most un-MI5-like characteristic: attachment to openness.

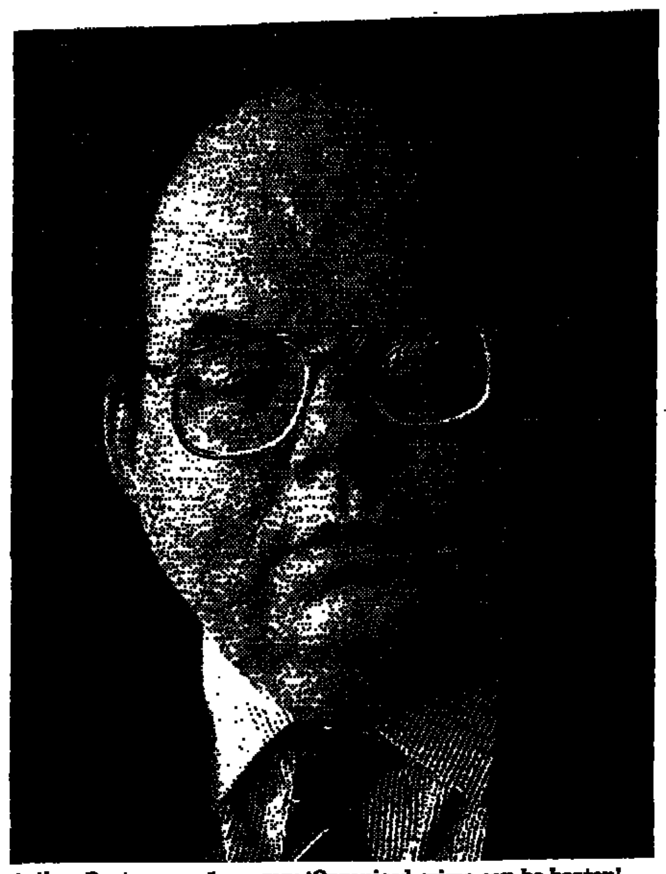
Mr Docters, a portly and philosophical 48-year-old career civil servant, passionately believes his service must be transparent and accountable. "If you want to sustain the democratic process, you have to be part of it. If you don't properly meet this requirement, you cease to exist.

"I abhor the idea of having an elite which is in the know about the dark side of society, which is entirely separate from ordinary people who know nothing about it."

The BVD maintains secrecy over individual operations – ranging from countering organised crime, terrorism and espionage, to surveillance of foreign nationals. It needs to be both clandestine and accountable. This is a difficult balance but a manageable one, says Mr Docters, who has been BVD chief since 1989. "We have a lot of room for manoeuvre. Dutch society is very open. We are easy people to deal with. But underneath we are quite security-minded."

Openness can enhance effectiveness. "The truth is a flimsy thing – you cannot coerce people into giving it. If you pay them, they will tell you only part of it. People must want to tell you. So you must invest in building up this public spirit."

He describes how a manager from a Dutch company came forward with information over



Arthur Docters van Leeuwen: 'Organised crime can be beaten'

the Iraqi super-gun. "We were the first western intelligence service to produce pictures of how this equipment was engineered."

Benefits can come in other ways, too. "Our people may go out in the evening and ask an elderly couple if they can use their bedroom for surveillance. If citizens do not know what the security service is doing, then you cannot expect co-operation from the public," says Mr Docters.

'The truth is a flimsy thing – you cannot coerce people into giving it'

The BVD has about 600 employees and an annual budget of Fl 65m (£23m). It issues an annual report (although not as fact-crammed as that of Germany's BfV security service), and is responsible to a parliamentary control committee.

The BVD's priorities have been "dramatically" changed by the end of the cold war, Mr Docters says. Its range of activities has increased – and, in fields like terrorism, the need for international co-operation has never been greater.

"There is a lot of movement of terrorist groups across Europe – and the Netherlands has good facilities for moving in and out. If there is a place in the world with revolutionary activity, you will find traces of it in Holland."

The BVD maintains links with 40 other security services, especially those of its EC neighbours. Like the BfV's Mr Eckart Werthebach, Mr Docters knows Mrs Stella Rimington, the director-general of MI5, well. "This [international] co-operation is essential. Only about 5 per cent of our problems come solely from inside the Netherlands – the rest has some international connection."

The BVD maintains its counter-espionage role – geared nowadays to combating Russian desire for intelligence in the economic and technological fields. "We still don't trust the Russians because they state time and again that they are continuing to gather intelligence."

Another preoccupation is organised crime, for which the BVD was given responsibility three years ago. He backs the bid by Germany's BfV to be granted powers in this area – a move which would give the Netherlands a clear German counterpart for joint action.

"It would be wise for every country to give their security services a mandate on this front. Organised crime can be beaten, but this needs international co-operation."

He admits that, in this field, the BVD is short of information. "We know something about the cartels involved – South American, Turkish, Mediterranean. We have some facts – involving Italy, for instance. We do not have a good map. But we can acquire one."

Mr Docters outlines one specific reason why intelligence services need to be involved in organised crime. "There are people who are prepared to talk to the security services, knowing that the case will not come before a judge and their identity will never come out in the open. This sort of procedure has already proved its worth in counter-espionage and anti-terrorism."

The BVD's operations against organised crime demonstrate how it descends into areas outside the juridical environment.

"Our countries [the west] live by the rule of law. But we create organs which are, at least, on the border of the law. The fierce reactions you sometimes have in public life stem from this paradox. People don't like paradoxes."

Mr Docters believes the Netherlands has found a way out of the paradox: his service can operate effectively only because there is a national consensus that it should do just that.

This is the third of an occasional series on EC personalities

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

EMS requires change – but not burial

From Mr Patrick Foley.

Sir, I wholeheartedly agree with almost all of what the "MIT Six" say in their article, "Why the EMS deserves an early burial" (Personal View, July 29). However, I don't believe that it is necessary to scrap completely the exchange rate mechanism. In the June issue of Lloyds Bank Economic Bulletin, I set out a proposal for ERM reform, which would change the system into a much more flexible one, based on central rates which are reassessed regularly, perhaps by the new European Monetary Institution, to ensure that they have not moved out of line with economic fundamentals.

Theory suggests, for instance, that German reunification required an appreciation of the D-Mark. The Bundesbank apparently pushed for this as early as 1989, but it was resisted by other ERM members. In the absence of a D-Mark realignment, the relative price shift required for a real appreciation could only be achieved by prices in Germany rising faster than those elsewhere. Because the Bundesbank was, perhaps understandably, not willing to allow a surge in German inflation, the result has been disinflation elsewhere. In a system where central rates were determined by reference to what was required for economic equilibrium, such deflationary pressure would not arise: the D-Mark would have been realigned to take account of the effect of reunification.

It is only by reform that the ERM will survive. Furthermore, I would argue that reform is essential to allow progress towards a single currency. We see in the latest German interest rate move confirmation that the Bundesbank continues to put domestic considerations first. While understandable, it makes it even less likely that the ERM will survive in its current form. But that would be a good thing.

Patrick Foley,
chief economic adviser,
Lloyds Bank,
PO Box 19,
Hays Lane House,
1 Hays Lane,
London SE1 2HA

From Mr Timothy J B Wills.

Sir, the EMS certainly failed to provide a universal panacea for the accumulated economic mismanagement of some countries. This does not mean that the system or the more important aim of monetary union should be declared dead. Austria has been able effectively to fix the schilling to the D-Mark for decades, and the Netherlands for years. Some countries joined the EMS without the reforms and track record the unleashed capital markets demanded. The markets maintained their belief in the inability of governments to fight inflation. It is against the interests of these huge borrowers.

It is only with monetary union that the curtain of exchange rates can be lifted and local competitiveness can show in local prices. Politicians would no longer be able to hide their mistakes behind brave speeches of evil speculators. The voter/consumer could see the effectiveness of government in the prices they have to pay week in, week out.

It would be a great shame to let incompetence win again.

Timothy J B Wills,
Thorwaldsenplatz 1,
60596 Frankfurt, Germany

No help from GM needed

From Ms Eileen M O'Connor.

Sir, Is it me, or might one call Mr Ferdinand Piëch of Volkswagen a bit self-absorbed in thinking that US group General Motors is trying not only to destroy his company, but to undermine the Germany economy as well ("VW chief in furious attack on GM", July 28)?

I may be wrong on this, but I would imagine that the German economy is perfectly capable of destroying itself with or without the help of Volkswagen or General Motors.

Eileen M O'Connor,
20 Edgewood Road,
Glen Ridge,
New Jersey,
US

Disquiet over competitive tendering

From Lesley Courcouf.

Sir, Your recent article, "Council contractors reduce tendering prices" (July 9), claiming savings in second round compulsory competitive tendering (CCT) contracts for refuse collection of upwards of 18 per cent has caused more than a little disquiet.

The plain fact is that the research on which the report is based appears to leave a good deal to be desired and the conclusions drawn are somewhat suspect. Many of the authorities listed were displeased at being cited as examples at this stage without consultation.

The Local Authority Associations have asked the Local Government Management Board's CCT information service to carry out a detailed analysis of the authorities quoted as examples from the recent CCT report by CDC Research.

Not one single reference has so far been found to be wholly accurate. For instance, one authority mentioned that it is not actually due to re-tender its contract until November 1995 and another has suspended its CCT programme prior to the outcome of local government reorganisation and extended its existing contract.

We have not named the authorities here because the LGMB database has a duty of confidentiality to its members.

Even if the figures were accurate, one should not assume that the compulsory tendering process in itself necessarily generates any savings. Any apparent savings may be attributable to a range of factors including financial pressures and changes to service specifications.

It is naive to assume that changes occurring over the period during which CCT has operated have necessarily been brought about by CCT.

Lesley Courcouf,
assistant secretary,
public works,
On behalf of the Local Authority Associations,
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Significance of National Trust backing for organic farming

From Mr Patrick Holden.

Sir, The launch by the National Trust of its organic farming development fund is of very great significance to the future of organic food production in the UK ("National Trust moves to promote organic farming", July 22).

Interest in organic farming methods, as characterised by the avoidance of artificial fertilisers and chemical pesticides and the development of diverse, ecologically sustainable systems, has never been greater.

Yet it would appear that many of the organisations in the grant-making trust sector have yet to acknowledge the wider social and environmental benefits that are associated with organic farming.

As an example of this, not a single charity listed in the usual directories of grant-making trusts includes the support of organic farming among its objectives.

This unfortunate situation no doubt arises from the fact that most existing charities were established long before the poisoning of our land and drinking water by intensive farming methods had become a matter of national public concern.

We would therefore like to appeal to the controllers and trustees of these many charities to consider amending their list of objectives to include organic farming and to give it a high priority in their rankings for financial support.

Not only are organic farmers and growers producing a food commodity that is in demand in the marketplace, but they are actively pursuing practical and principled solutions to the continuing denuding of the countryside by conventional agriculture, the welfare of farm animals and the very fabric of our rural communities.

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FINANCIAL TIMES
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Friday July 30 1993

Bleak summer for the ERM

HISTORY must judge whether the Bundesbank's actions of the past few years will eventually confirm, or undermine, its economic reputation as Europe's most accomplished central bank. For the moment, the only conclusion that can be drawn from its baffling behaviour of the past few days is that the Bundesbank's public relations skills are woefully lacking. Its decision to allow Europe's highly-strung foreign exchange markets to infer that a discount rate cut was imminent and then leave the rate unchanged appears, at best, incompetent.

The Bundesbank has achieved one thing for which it should not be criticised: no one can now accuse the bank of putting the preservation of the European exchange rate mechanism before its prime task of achieving medium-term stability.

Whether German interests do, indeed, mitigate against a further cut in short-term rates appears highly questionable. The suspicion remains that, after a sharp recession and when the yield curve is inverted, the bank's determination to set policy by contemporaneous inflation and monetary indicators may prove a serious mistake.

But the Bundesbank can and should be criticised for a series of actions which have served to feed the frenetic instability in Europe's money markets. Why, if the Bundesbank did not intend to cut the discount rate yesterday, did it unexpectedly reduce the highly sensitive repo rate the day before? And why has it felt no obligation publicly to explain its actions?

One answer may be that a full explanation is too unpalatable for its council members to express. For Germany is no longer the strong and stable low inflation country that it once was.

This fact is at the root of the current difficulties. Fixed exchange rate systems work well when all the members of the zone are affected similarly by the same economic problems. They perform less well when some countries have special economic problems which require a different policy mix: that is why the UK and Italy were forced to leave the ERM last autumn, and why Spain is now under such pressure. But fixed systems perform disastrously when the anchor currency also joins the problem category.

The ERM's current difficulties stem from the fact that Germany has structural budget problems and an inflation rate currently more than twice as high as that of France and Belgium and four times that of Denmark. For Germany, that will continue to mean high short-term interest rates. For its low inflation partners, it means ever higher real interest rates. The result is the unnecessarily deep recessions they are now suffering.

An ERM re-alignment would offer no realistic prospect of relief. While Germany remains the ERM anchor, it will continue to set the interest rates floor and the markets will continue to bet on whether the low inflation counties will be forced to breach it. A better solution might be for Germany to recognise that it – not France or Denmark – is the country with structural problems and so needs, temporarily, to leave the ERM.

The only other option for these low-inflation countries is to try to sweat the summer out. That means continuing to lose foreign exchange reserves while trusting the Bundesbank to intervene and the big speculative players to stay away. They may yet succeed. But at what price?

A right to privacy

THERE ARE fundamental difficulties in defining a right to privacy in English law, as successive inquiries, reports and private members' bills on the subject have discovered. A government considering legislation on privacy should proceed warily and consult on the widest possible basis. Yesterday's green paper on privacy should therefore be welcomed for its comprehensive and scholarly examination of this thorny issue.

Less welcome, however, is its recommendation of a civil remedy in law for people whose privacy is infringed. It is true, as the green paper argues, that "a society which permits individuals to choose how they are to lead their lives is one which will recognise the choice of privacy". But privacy is a complex subject: people need – or want – different amounts of privacy. And the right to privacy cannot be unconditional: people in public life must accept some loss of privacy in return for high office and popular esteem.

For these reasons, the green paper sensibly rejects an absolute right to privacy. But its proposed remedy against conduct which would infringe a person's privacy is scarcely better. Such a remedy must be open to a public interest defence, especially in a country where the media enjoy no constitutional right of free expression. The green paper suggests that matters falling into the public interest category would include "seriously anti-social conduct" and "the discharge of a public function". Would the recent behaviour of some politicians or members of the royal family fit into these definitions?

And since there would be no access to legal aid in enforcing the proposed tort of privacy, only the rich would be able to use it. Mr Robert Maxwell and Mr Asil Nadir would undoubtedly have had the resources to use such provisions, unlike the widow of an IRA victim hounded by the press.

Public concern over infringements of privacy has abated recently, partly because of increasing suspicion that politicians would like greater protection from public scrutiny. Some of the more notorious allegations about the great and the good have been subsequently justified by events. In any case, the level of complaints to the Press Complaints Commission suggests that intrusion is less common than many suppose: just 109 admissible complaints on privacy were received in the 18-month period to July 1992.

That there have been quite unjustifiable and egregious infringements of the privacy of individuals is undeniable. But many of these might be better dealt with by tightening up on the laws of trespass and telephone tapping. Until those avenues have been fully explored, the case for legislation on privacy has yet to be made.

Destruction Derby

In the past week, the battle between General Motors and Volkswagen has escalated into a commercial war of a bitterness without parallel in recent memory. What on earth is it all about? One suggested cause can surely be ruled out: that Mr José Ignacio López de Arriortúa, whose defection to VW sparked it all off, is a manager of irreplaceable talent. His record in cutting GM's costs in Europe is undeniable. But it must be absurd to suppose that the gap between him and the nearest equivalent from GM's three quarters of a million workforce is wide enough to account for the scale of the dispute.

There is an altogether murkier alternative. GM, like VW, is engaged on developing a small car for the world market. Historically, the car industry has been unusual in its dependence on new models and the secrecy in which they are enveloped. But the level of aggression between GM and VW suggests there is more at stake than the shape of the boot or the design of the dashboard. GM has toiled for years to transform itself from a mass-production dinosaur to a flexible lean producer on the Japanese model. What if, for instance, GM has come up with genuine cost-saving innovations on the production line as a result of its labours on the multi-billion Saturn project?

This is speculation, and is likely to remain so. Were GM to have any such innovations up its sleeve, it would scarcely be ready to share them with the world's press. But the idea would fit the accusations GM levels at Mr Lopez: that – for example – he requisitioned data from GM amounting to 90,000 sheets of paper, and that he tried to poach another seven top GM employees.

VW's counter-accusations, lurid though they sound, merit serious consideration. Their main thrust is that GM has sought to plant commercial secrets in VW's computer system as a means of incriminating Mr Lopez: and that boxes of secret data found in a flat formerly occupied by defecting GM executives were planted by persons unknown or by GM itself. But that would imply that GM felt so threatened by Mr Lopez's managerial talents as to hand over sensitive commercial data in order to discredit him.

In a case so bafflingly short of facts, the field is open to speculation. But two conclusions are clear. The first is that this dispute is getting to the point where both managements stand to suffer serious damage. The second is that the passionate commitment of both parties is clear evidence of an industry in trouble. The underlying issue has to do with declining sales and chronic overcapacity in the world car market. The more clamorous the argument, the more cause the car industry has to worry.

Michael Smith on pressures to reform the pricing policies of England and Wales's electricity market

Critics cause a ripple in the pool

The arcane and complex operation of England and Wales's electricity pool, the wholesale market through which power is traded, is not a subject on which much light is regularly thrown. The complex trading system leaves most observers in the dark. But when Professor Stephen Littlechild, the industry regulator, publishes a review of prices today, its role and future strategy will be under the spotlight in an intense bout of public scrutiny.

At issue is the future shape of the pool and, potentially, the survival in their present form of National Power and PowerGen, two of the UK's largest companies, which help to run it. Prof Littlechild has warned that, if not satisfied with explanations from the two big generators about rises of up to 20 per cent in pool prices this year, he may refer them to the Monopolies and Mergers Commission.

Though a referral is unlikely for some months, today's report is likely to criticise the generators and strengthen Prof Littlechild's belief that reforms to the system are needed. He is not alone in this.

Prompted by the lobbying of industrial energy users, which are the main victims of the price rises, the government is considering plans to enable some of them to bypass the pool and buy directly from "dedicated" generators. This would have significant implications for most domestic electricity consumers who may see prices rise because they would have to pay a larger share of administration costs.

Pool managers and the electricity companies have already set up their own review of operations to take the heat out of the debate. They are looking at how the system can be simplified, and whether changes should be made in transmission services and the bidding system which sets prices. Initial findings are expected in the autumn.

The focus of attention is the trading system set up when the government privatised the electricity industry three years ago. The pool is run by executives appointed by the electricity companies. It is not a physical stock of electricity. Instead, it is a mechanism for setting electricity prices.

After weighing up supply, which is made available at varying prices by generating companies, and demand, it sets the price of electricity for each half-hour period of the next day. Without it, or something like it, there would be too much or too little electricity at any one time.

On a practical level, the pool has worked well. Electricity has been dispatched to where it is needed. As Prof Littlechild observes: "The lights have stayed on." Ministers note that most small industrial and household customers have benefited from lower prices since introduction of the pool. This is because their electricity needs have been covered by fixed-price "hedging" contracts between generators and regional electricity companies, set several years ahead. Short-term changes in the pool price do not affect most consumers.

But for large users buying directly from the pool, the latest price increases follow the end of a scheme which, until privatisation, provided them with cheap electricity generated from cut-price coal.

The effect of the scheme's demise and pool price rises is demonstrated at Imperial Chemical Industries' chlorine plant at Runcorn, Merseyside, where power costs have risen by 70 per cent in the past two years. Plant managers believe they need to fall 40 per cent to bring costs into line with international competitors. Otherwise, they say, the long-term future of the site is in danger.

Such large users are particularly irked because the pool increases come when fuel costs are falling as a result of British Coal price cuts.

PowerGen and National Power argue that some of the price rise has been beyond their control, resulting from difficulties with the computer software which calculates prices, and disruptions to the grid caused by smaller generating companies being connected to it.

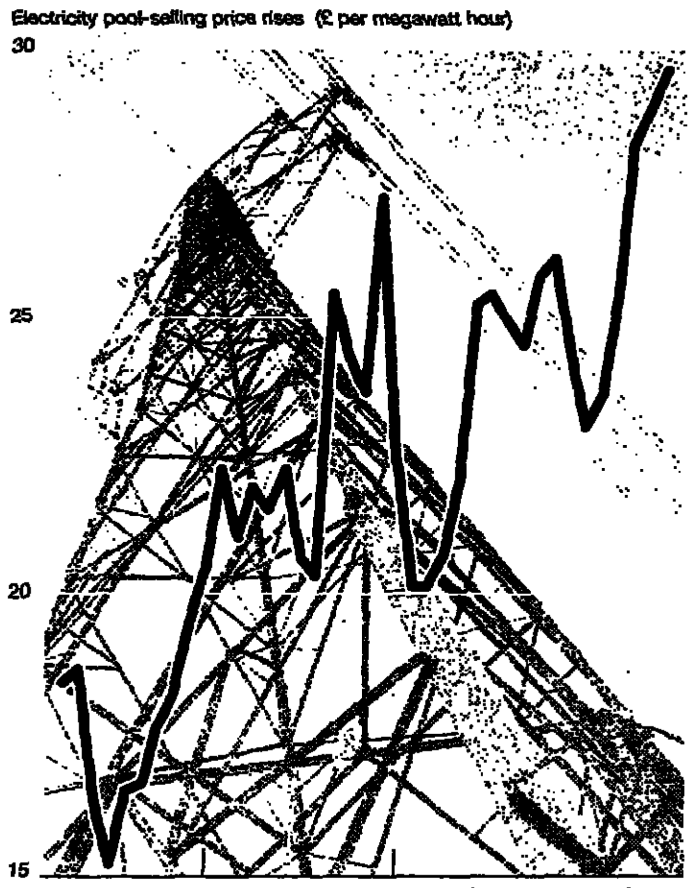
National Power agrees that the prices it demands from the pool have risen since April, because contracts fixed at privatisation, which kept pool prices artificially low, ended in March. "Today's bid prices reflect more realistically the cost of electricity production," says Mr John Baker, chief executive.

The complexity of the pool's operation makes argument against the generators an arduous task. "It is difficult for an outsider to assess how the bid of a particular plant will affect the pool price," according to one large electricity buyer. "The generators, on the other hand, with a wealth of experience of the system, can design bids to achieve their particular aims."

The suggestion is that the generators have used their muscle in the market to push up pool prices. But they deny they abuse the system. While Prof Littlechild's report will help resolve the matter, some large industrial users believe a more effective way of reducing prices would be to persuade ministers to allow them to bypass the pool and buy direct from the generators. With pool-associated costs, including administration, amounting to 20 per cent of the final cost of a typical large user's power bill, the savings could be considerable.

A shock to the system

Electricity pool-selling price rises (£ per megawatt hour)



Source: Energy Settlements & Information Services

Intensive energy users justify their case by saying the costs of running the system are mainly associated with fluctuating demand, for which they blame mainly domestic users. Heavy, continuous process industries, such as pharmaceuticals, tend to want constant amounts of electricity each hour of each day of the year. "Why should we pay for services, including expensive reserves, which are needed because others have less predictable demand?" asks Dr Richard Wills, an economist at the Major Energy Users' Council, representing large consumers. "The innocent are paying for the actions of the guilty."

However, Mrs Margaret Thompson, pool chief executive, says that, if bypassing the pool means paying no pool-associated charges, "then it isn't on. The domestic customer would pay. We can try to charge on a fairer basis but the pool cannot be used to provide subsidies." She says she hopes the pool's internal review will make bypassing irrelevant. In it, the aims of participants vary, but they appear to agree the system should be made simpler and more transparent.

The case for change is summarised by Prof Littlechild: "The more transparency you have the more effective and competitive a market you have. If participants believe a market is open and simple they are more likely to find it satisfactory."

One way to simplify the market would be to abolish the system whereby generators provide five different prices for each individual generating unit of each power station. "There ought to be a simpler way," says Mrs Thompson. "The engineers say it is important that the information is there. The question is whether the information needs to feed into how the prices are set."

Most intensive energy users are more interested in another proposal being considered by the pool: whether it is prepared to accept "demand-side bidding" proposals. These would provide payments for electricity users who agree to reduce their consumption when the load on the system is high.

Among the advantages of such bidding are greater predictability of demand and a cost reduction. Pool executive members are concerned this would be a back-door method of cutting prices for large users. "I'm not sure that agreeing not to take electricity, in effect doing nothing, is a service which demands payment," said one. "However it might be a more perfect market if demand-side bidding was introduced."

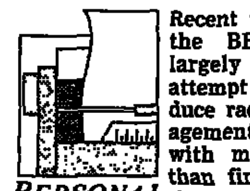
The third area under review by the pool involves transmission services, including whether the National Grid, which runs the electricity system, can be provided with new incentives to cut costs.

Under existing arrangements, the grid passes on all the costs of administering the pool to customers. It has suggested a complicated reform, backed by hedging contracts with electricity companies, under which it would increase its exposure to risk but would expect to make a profit from doing so.

Interesting though the idea may be, the calculations on which is it based do not have the quality of simplicity. That is the problem for most of the options under consideration by the pool. "The fact is that people are talking at cross purposes," says an insider. "It is highly unlikely that you can introduce new rules and expect simplification at the same time."

Given the complexities and the need for consensus, the pool is likely to take several months to implement any reforms. In the meantime, prices show no signs of falling. Pressure for action by the pool or the government is not likely to ease; nor is speculation about the generators' bidding behaviour and a potential monopolies reference.

A picture of a more open BBC



PERSONAL VIEW

Recent turmoil at the BBC stems largely from its attempt to introduce radical management changes with more haste than finesse. But the process of change is being made more difficult by the BBC's confusing constitutional structure.

The basic problem is that the board of governors combines regulatory and managerial functions. Moreover, the BBC lacks a well-defined framework of objectives and performance indicators – obligations and aims are specified throughout the Charter, the Licence and Agreement, legislation such as the Broadcasting Act 1981 and even in the BBC's annual review, published on Wednesday. The resultant package is too lacking in precision to offer a peg for accountability to the viewing public.

If it is assumed that the BBC is to remain a single, coherent organisation that serves the public interest by offering a broad range of distinctive programmes, what should the structure be when the current Charter expires at the end of 1996?

Most important, regulatory and executive functions should be separated. An Office of Broadcasting (Ofbro) should be established, responsible by statute for regulating the BBC's execution of its obligations, for approving its strategy statement and for adjudicating on complaints. There are arguments for and against combining within Ofbro the regulation of other broadcasting channels, such as ITV, Channel 4 and cable and satellite. There may be advantages in having one regulator for the whole industry rather than several regulators, each enjoying a closer relationship with the organisation it regulates.

The powers of Ofbro should attach either to a single regulator or to a board appointed by the home secretary. The BBC as an executive body should be headed by a chief executive responsible to a board of executive and non-executive directors. It should be the BBC's function to devise strategies for meeting obligations.

The new legal framework should be statutory as is the case in utilities regulation. A Royal Charter may give a breadth of capacity that is not offered by a statute, but this advantage means little to a body such as the BBC which is also subject to a Licence and Agreement. A new Broadcasting Act should set down the duties of Ofbro and the BBC. The home secretary should continue to issue a licence to the BBC, which would be obliged to make a periodic "statement of strategy" setting out both how it sees its role and how it proposes to implement its objectives. The statute would call on Ofbro to approve the policy statement with amendments where necessary.

The corporation's regulatory and executive functions should be clearly separated

The agreed strategy statement would then be reflected in a set of performance targets. Fortunately, television audience measurement makes it possible to capture both numbers of viewers and how much they appreciate individual programmes. It would therefore be natural to specify the BBC's targets as a combination of quantity and quality and to link the pay and tenure of the corporation's senior executives to the attainment of the targets.

A regime in which the ultimate regulator (Ofbro) lacks accountability to ministers depends on the openness of its procedures if it is to be seen as legitimate. To some extent a separate regulator and a published "statement of strategy" offer more openness than applies at present, but performance deficiencies may be due to poor execution, poor regulation or both. In a new initiative, therefore, increased public funding should be made available for a viewers' council, which would be empowered to report to the public on the activities of both Ofbro and the BBC. For its part, parliament may see it as appropriate to establish a standing committee on public service broadcasting.

What is to be gained from such a revised system? First, an institutional separation that encourages effective control and accountability. Second, more openness in policy formulation and, as a result, greater responsiveness in a rapidly changing environment. Third, increased powers for viewers' representatives. Such arrangements are likely to enhance not merely accountability and the fair treatment of viewers but also the potential of the BBC to be seen to satisfy its mandate.

Robert Baldwin and Martin Cave

The authors are, respectively, teacher of law at the London School of Economics, and teacher of economics at Brunel University

OBSERVER

Patten's room for hope

■ If only Chris Patten were still around. How often one hears top Tories bemoan the loss of the former party chairman to the colonies. Patten was the one man who could articulate what the prime minister stood for. Since he left for Hong Kong no one has really filled his spot.

So it came as a surprise to find him in London yesterday addressing a conference organised by The Tablet, a Catholic weekly, rather than the voters of Christchurch, on a subject close to Tory hearts – Hope.

He admitted the topic was unfashionable: "Why speak of Hope in July of all months? July: the February of summer, heavy with all the fag-ends of politics, winding wearily on and petering sullenly out. In July, Hope is invariably dashed like the waves on a stern and rock-bound coast."

It was an upbeat speech. But perhaps sensibly he did not address the question of whether there was any hope for the government he left behind.

Learning curve

■ It is hard to believe that the Lord Rees-Mogg behind today's High Court ruling on the Maastricht treaty is the same Rees-Mogg who used to edit The Times when it really did speak for the establishment.

There was one celebrated occasion at the start of 1972 when the great editor led his newspaper with a banner headline declaring that "The Times is a European newspaper" – rather than filling the front page with the usual diet of mere news. This odd decision prompted Owen Hickey, then the paper's chief leader-writer, to proclaim that he had always been brought up to believe The Times was a *world* newspaper.

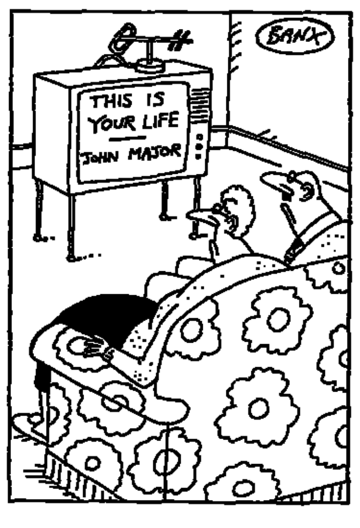
Perhaps Rees-Mogg, now back with The Times as a humble columnist, has belatedly come round to that view.

Sweetened pills

■ Martin Wygod, who is selling his Medco pill distribution business to Merck, is one of the shrewdest financial promoters around. He has also become a fly in the ointment for US pharmaceuticals companies so it's no surprise that Merck has had to pay $6bn to catch him and his business.

By standing up to the drugs companies on behalf of some of the biggest buyers of pharmaceuticals, Medco won discounts of up to 25 per cent. So it was unnerving for big drugs purchasers to see Wygod canoodling with Merck, the biggest drugs producer.

For Wygod, at least, it is good



news. He will get $61m in Merck shares, have options over another $37m, and plans to buy another $30m or so of Merck paper. And he promises Medco will remain fiercely independent, buying only the best and cheapest drugs around, regardless of whether they have the Merck stamp on them.

The deal also throws up another interesting name. Richard Braddock, 50, ex-president of Citicorp, only took over from 53-year-old Wygod as Medco's chief executive last December. Given that Richard Markham, Merck's heir apparent, resigned a fortnight ago, will Braddock now be a contender for the top job at Merck? Or will he return to banking?

His name was mentioned when American Express was looking for a replacement for Jimmy Robinson. So perhaps he could be a candidate to fill the chief executive slot at Barclays. It certainly seems to be taking a long time to find someone.

Quornered

■ ICI is patently glad to be shot of its bio-science operations; it passed off Zeneca, its £4bn offshoot, merely as a "discontinued business". Industry journalists can only agree. As the two companies' results briefings will no longer coincide, there will also be no occasion for Zeneca to ply unsuspecting hacks with the company's meat-substitute, Quorn, in between sessions.

Island in the sun

■ As the Bundesbank snootily left its all-important discount rate untouched yesterday, it was all too much for Europe's pressured finance officials. Asked about a possible devaluation of the krone, Danish central bank chief Erik Hoffmeyer snapped: "I absolutely exclude it. American bankers will not be allowed to decide our monetary policy."

American bankers? Not many of those in the upper echelons of Buba. No, Hoffmeyer – who obviously has a long memory – could be thinking of Robin Marshall, the thoroughly English, Oxford-educated chief economist of Chase in London who paid the Danes a visit back in February.

Marshall, who was greeted at the airport by hordes of journalists and was taken aback at the interest his trip aroused, made the point that punishing domestic interest rate levels suggested the krone was ripe for devaluation, if not outright suspension from the ERM.

No country likes foreigners being rude about its currency, and the Danes acted particularly wounded. The stock market duly fell. But the local press comforted itself with the thought that the view was typical "of the islanders who are biased by the pound's unworthy exit from the EMS", and perhaps only to be expected from a graduate of one of "the right British universities".

Casualty

■ Bad luck for Inter-Continental Hotels that on the day that it announced it was returning to Beirut, after an 18-year absence, Israel sent an armoured column including tanks and personnel carriers into south Lebanon. Fortunately, the 600-room Phoenicia Inter-Continental which used to be the Middle East's premier hostelry, is not scheduled to reopen until January 1995 – by which time there might be a more permanent ceasefire.

FINANCIAL TIMES
Friday July 30 1993

Coalition begins talks on cabinet posts

Japan's opposition to back reformist for PM

By Robert Thomson in Tokyo

MR Morihiro Hosokawa, leader of the reformist Japan New party, is set to become the country's next prime minister, after a coalition of opposition parties pledged to support him.

The Liberal Democratic party, which lost its majority in the July 18 election, now faces a spell in opposition for the first time since 1955.

The immediate reaction to Mr Hosokawa's likely appointment was a 3.2 per cent jump in Tokyo stock prices. But Japanese bureaucrats expressed concern that such an unwieldy coalition would be unable to cope with trade friction or a sudden international crisis.

Seven parties, ranging from the left-wing Social Democratic party to the conservative Japan Renewal party, have agreed to appoint a joint cabinet. Negotiations began yesterday for ministerial posts, which will be finalised after a parliamentary vote for prime minister. The vote is expected next Thursday.

The parties released their first detailed policy statement, which gives priority to political reform,

Source: FT Graphite

including a ban on corporate donations. However, it maintains most of the present economic and foreign policies, although it does hint that defence outlays could be cut and social welfare spending increased if the coalition presides over next year's budget.

Meanwhile, the LDP will choose its prime ministerial candidate today at a party meeting which will have the choice of Mr Michio Watanabe, an ailing former foreign minister and old-style politician, and Mr Yohei Kono, the chief cabinet secretary, who has promised to reform the party if selected.

Unless the LDP can convince one of the coalition members to defect in the next few days, the party's candidate will lose in next week's parliamentary session, as the coalition can count on at least 245 votes to the LDP's 225.

Business leaders, accustomed to dealing with the LDP, yesterday welcomed the expected appointment of Mr Hosokawa,the grandson of a Japanese wartime leader and member of a family which ruled parts of southern Japan during the feudal era.

Mr Takeshi Nagano, president of the Federation of Employers' Associations, said the coalition might cause confusion after taking office because of policy differences among members. He suggested that business leaders be appointed to the cabinet, which is allowed in Japan.

However, Mr Gaishi Hiraiwa, chairman of the Keidanren, the Federation of Economic Organisations, who had earlier condemned the proposed coalition government, expressed hope that the coalition would be able to introduce political reforms.

Industrial output falls, Page 4
Japan survey, Section III

Bosnian leaders discuss union of republics

By Laura Silber in Geneva and agencies

INTERNATIONAL mediators in Geneva yesterday proposed a union of three Bosnian republics, in an attempt to bridge the gap between the warring parties.

The plan, presented by Lord Owen and Mr Thorvald Stoltenberg, sought to satisfy Serb and Croat demands for the partition of the republic along ethnic lines and the Moslem aim of creating a federal Bosnia, a United Nations official said.

Bosnian Serb leader Radovan Karadzic welcomed the plan and said he could accept it with "only minor changes" since it was "pretty close" to the Serb-Croat proposal for ethnic mini-states.

Details of the mediators' proposals were unavailable yesterday because the conference participants have agreed to a news black-out of the peace talks. Diplomats said the proposal gave the central government control over foreign policy but few other powers.

Bosnia's President Alija Izetbegovic last night was consulting the Bosnian collective leadership after seeking revisions in the plan, which cast aside his calls for a centralised federation.

A UN official said the participants were talking "seriously, courteously, and constructively", but he admitted the talks could break down with little warning.

Bosnian leaders agreed to cease hostilities in the 16-month war. Mr Izetbegovic, Mr Karadzic and his Croat counterpart Mate Boban agreed to an immediate ceasefire, interrupting their session in Geneva to issue the order to their military commanders, said UN spokesman John Mills.

The three protagonists agreed that their commanders would remain in continuous session at Sarajevo airport while the Geneva talks continued. Despite the order to implement the accord immediately, there was no sign in Bosnia that any ceasefire would hold.

Previous truces have collapsed almost immediately. Fighting continued yesterday around Zuc, a strategic hill protecting Sarajevo from the north. Serb forces had captured vital points, Belgrade media reported.

Commander Barry Frewer, the UN military spokesman in Sarajevo, said: "The Bosnians are continuing to put up their defence and counter-attack. There is shelling on both sides but predominantly on the Serb side." He said he hoped that rival military leaders would meet today, but nothing was certain.

In Washington yesterday, Mr Francois Leotard, the French defence minister, said the western allies with troops in Bosnia would not tolerate further attacks on UN troops and were prepared to quickly launch air strikes if they continued.

Sluggish US growth fails to deter financial markets

By George Graham in Washington

THE US economy grew far more sluggishly in the second quarter than economists had expected, but the financial markets found a silver lining to the superficially gloomy report.

The Commerce Department said US gross domestic product grew at an annual rate of only 1.6 per cent last quarter, after the very weak 0.7 per cent growth of the first quarter.

Mr Ron Brown, the Commerce Secretary, said there were encouraging signs in the report, but "while we are clearly out of a recession, these figures reflect anaemic growth that will not produce the jobs we need".

The Commerce Department said strong rises in personal spending, business investment and exports were offset by a slowdown in inventory building by businesses, which subtracted $25.3bn from growth in the second quarter, after adding $23.7bn in the first quarter.

Personal consumption rose at an annual rate of 3.8 per cent in the second quarter, led by purchases of durable goods, while non-residential fixed investment rose at 13.3 per cent and exports at 6.7 per cent.

This left real final sales, which exclude the inventory effect, growing at an annual rate of 3.7 per cent, after contracting at a rate of 1.2 per cent in the first quarter.

Mr Bill Dudley, an economist with Goldman Sachs said: "If you look at the guts of the report, it says the economy is doing fine."

Mr Jason Benderly, of Benderly Economic Associates, a Colorado research company added: "The combination of final sales growth at 3.7 per cent and the slowdown in inventory growth is a reason to be less worried about a very sluggish number."

This interpretation of the figures sent bond prices up sharply yesterday, pushing yields to all-time lows, while share prices broke into record territory. At 1pm the Dow Jones industrial average was up 18.44 at 3,0571.89.

The weak GDP figure came only a week after Mr Alan Greenspan, chairman of the Federal Reserve, predicted second quarter growth at 2.5 to 3 per cent.

Members of Congress were last week perturbed by Mr Greenspan's signal that the next move for US interest rates was likely to be up, and Mr Henry Gonzalez, chairman of the House of Representatives banking committee, yesterday took Mr Greenspan to task for his errant forecast: "If the Federal Reserve chairman can miss that one by a hundred per cent, as he apparently did last week, we are in real trouble."

Italian pay-offs said to top $80m

Continued from Page 1

Enimont affair. In particular Mr Forlani was alleged in the warning to have received L35bn on behalf of his party.

Mr Forlani claimed the allegations were false as did Mr Craxi, Mr La Malfa and Mr Pomicino. Mr Craxi was alleged to have received L1.5bn.

According to L'Espresso, 70 per cent of the bribes were split between the Christian Democrats and Socialists, with the remainder going to individual politicians, middlemen and employees of Eni. Among these was allegedly the late Mr Gabriele Cagliari, the former chairman who committed suicide in jail two weeks ago.

Mr Gardini also committed suicide. In testimony to Milan magistrates, Mr Giuseppe Garofano, the then chief executive of Montedison and Mr Carlo Sama, another senior management figure – both currently in jail – are alleged to have said Mr Gardini was obliged to pay the bribes to ensure the success of the deal for Montedison.

THE LEX COLUMN

Twilight of the ERM

It is hard to see what can hold the ERM together after yesterday's Bundesbank refusal to cut its discount rate. The bank's decision looks odd after Wednesday's cut in its repurchase rate and leaves the impression of wide disagreements within its central council. But the clear message is that most council members remain in favour of putting domestic considerations first.

That is, after all, logical. Had the Bundesbank cut its discount rate for the second time in a month just to save the French franc, its credibility as the guardian of sound money would have suffered serious damage. There is little in Germany's domestic situation to justify further relaxation. Inflation and money supply growth remain excessive. Significantly, the German bond market weakened when a cut was expected ahead of yesterday's meeting, a sign that financial markets were worried about the inflationary consequences of premature easing.

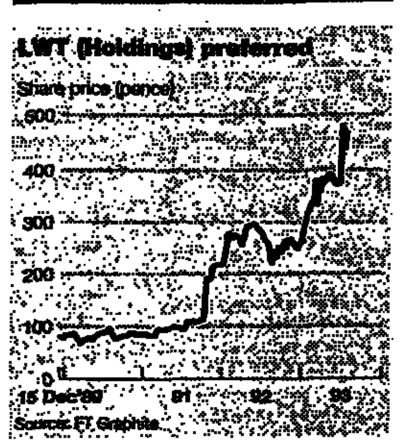
The days of self-delusion are, however, past. German rates will not come down far enough or fast enough to refloat the French economy. The peseta, escudo and the Danish krone look more immediately threatened. But barring a miracle it looks only a matter of time before the French franc's position in the ERM is untenable too. Intervention on yesterday's scale cannot continue indefinitely, especially since that would once again put German money supply targets out of reach.

Today's French unemployment data may determine the timing of the final *dénouement*. Thereafter the market would be back to judging currencies on their fundamentals. Comparison with the franc might then quickly put the mighty D-Mark in a much less favourable light. Yesterday it was already falling sharply against the dollar.

ICI/Zeneca

A year after the plan to demerge Zeneca from ICI was unveiled, the issues facing the businesses have barely changed. The outlook for agrochemicals now housed in Zeneca remains at best patchy as the reform of the Common Agricultural Policy takes its toll. Sales of Tenormin, the biggest drug in the pharmaceuticals business, are still falling following the expiry of its US patent. ICI's petrochemicals business is struggling against poor margins. Slow recovery in the US and deteriorating prospects in Europe continue to postpone a

FT-SE Index: 2917.6 (+33.4)



Source: FT Graphite

bounce in profits from paints, explosives and industrial materials.

After yesterday's bounce in the shares, though, the combined worth of ICI and Zeneca has risen by 8 per cent over the year. The passage of time might take some of the credit: European agrochemicals may be through the worst by the end of this year, as should the decline of Tenormin. Sales figures for Zeneca's new drugs increasingly support the notion that decent sales growth in pharmaceuticals can be maintained despite cost-cutting measures from governments. There is also the small matter of sterling's devaluation, worth £50m to ICI in the first half and rather more to Zeneca.

Since the economic cycle is unlikely to offer much immediate help – and exchange rates could take an adverse lurch – progress from here will rely on management action. The product swaps and cost cutting undertaken by ICI show the right mix of imagination and rigour. More of the same on both sides of the business is now required to justify the decision to split.

LWT

The millionaire moguls of the television sector have again demonstrated their penny pinching skills, enabling LWT to widen half-year trading margins by 7 percentage points to 26.6 per cent. Despite a minimal rise in advertising revenue, LWT's assault on costs produced a 20 per cent increase in pre-tax profits. However, the scope to trim costs further is diminishing. Earnings growth will increasingly depend on pushing more work through its studios and boosting advertising income. But both tasks will be tough in today's sticky trading climate. Moreover, when the preferred shares convert next month, the dividend cover is likely to be set at between two and 2¼ times. That is hardly generous for such a cash generative business.

LWT's recent share price rise, though, owes more to speculative appeal than trading outlook or prospective yield. Granada's acquisition of a 20 per cent stake at a premium price seemingly emphasises LWT's worth as a bid target. Yet this theory may prove suspect if, as Sir Christopher Bland, LWT's chairman, believes, the balance of probability has now swung against a change of rules permitting the big nine franchises to devour each other. On this view, many television shares, including LWT's, look decidedly heavy.

General Motors

The cloak and dagger intrigue surrounding Mr José Ignacio López de Arriortúa's move from General Motors to Volkswagen has certainly caused a head-on collision. But as yet his departure has not even scratched the paintwork of GM's financial performance. Despite the spluttering US economic recovery GM seems to be on target to break even on its North American operations this year. While unsatisfactory, that is at least a significant improvement on the $11bn-worth of losses in 1991 and 1992.

General Motors has a long way to go – its vehicles, for example, still cost some $800 more each than Ford's to produce. Yet heavy cost-cutting seems to be having an effect and GM's gross margins rose by 1.9 percentage points in the first half of 1993. The company is also starting to rationalise the duplication in areas such as component design, so that engineers will have to select from a limited set of standard parts. Not all of the restructuring is negative. GM is putting the experience of its Japanese-style Saturn plant to work elsewhere in the group, and it is gaining market share as it produces more attractive models.

In part the company has been helped by the strength of the yen, which has made Japanese imports less attractive.

That has given GM an extra breathing space it scarcely deserved. Whether the company and its workforce are really determined to capitalise on the opportunity may show more clearly in the negotiations for a three-year pay deal this autumn.

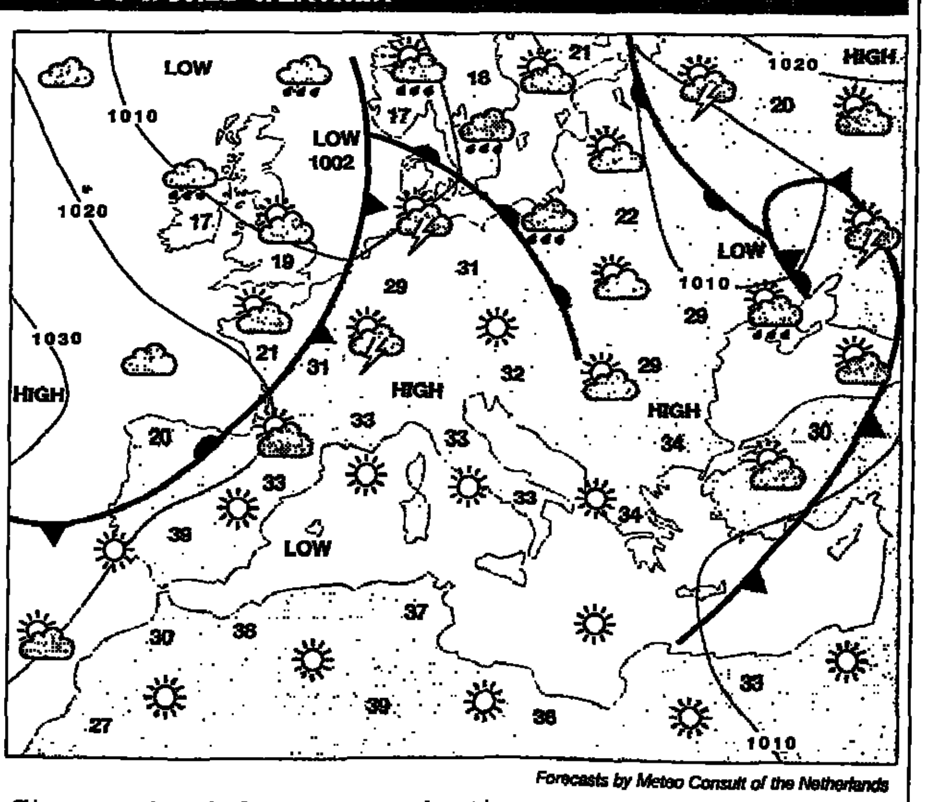
FT WORLD WEATHER

Europe today

A frontal system associated with a complex area of low pressure west of Norway, will move slowly to the European continent.
Ahead of this, southerly winds will draw very warm and moist air to the north.
In the afternoon and evening, thunderstorms will develop in France, Germany and the western Alps. Over the UK, it will be cool with outbreaks of rain or local showers. Temperatures will reach 15C-20C.
In southern and south-eastern Europe, it will continue mostly sunny and very warm. In southern Spain, temperatures will rise locally over 40C. There will be sunny intervals interspersed with showers over Scandinavia. The showers will be most frequent in the north. Afternoon readings will be between 15C and 20C.

Five-day forecast

Until Sunday, a series of depressions will ensure more thundery showers in western and central Europe. Readings will be about 21C.
By Sunday, a building high pressure area over Germany will cause temporarily drier conditions and higher temperatures.
In most of the UK and Scandinavia, it will continue unsettled and rather cool. In southern Europe, no significant changes are expected.



Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	44
Accra	cloudy	28
Algiers	sun	37
Amsterdam	cloudy	20
Athens	sun	34
Bangkok	rain	35
Barcelona	fair	30
Beijing	shower	31
Belfast	shower	17
Belgrade	sun	33
Berlin	fair	31
Bermuda	shower	28
Birmingham	fair	19
Bogota	rain	17
Bombay	rain	30
Bordeaux	cloudy	23
Brussels	shower	22
Budapest	fair	31
Buenos Aires	fair	10
Cairo	sun	38
Cape Town	fair	15
Caracas	shower	27
Chicago	fair	29
Cologne	thund	27
Copenhagen	fair	23
D' Salaam	fair	29
Dakar	fair	31
Dallas	thund	38
Darwin	fair	31
Delhi	cloudy	36
Dubai	sun	41
Dublin	cloudy	18
Dubrovnik	sun	34
Edinburgh	rain	18
Faro	sun	31
Frankfurt	thund	31
Geneva	fair	32
Glasgow	shower	16
Hamburg	shower	24
Helsinki	fair	22
Hong Kong	cloudy	31
Honolulu	fair	31
Isle of Man	rain	16
Istanbul	fair	31
Jersey	shower	16
Karachi	fair	33
Kuwait	sun	47
La Paz	shower	16
Las Palmas	fair	29
Lisbon	fair	28
London	fair	19
Los Angeles	sun	24
Luxembourg	thund	26
Lyon	fair	33
Madeira	fair	26
Madrid	fair	38
Majorca	sun	35
Malta	sun	34
Manchester	shower	17
Manila	shower	30
Melbourne	rain	15
Mexico City	shower	23
Miami	sun	34
Milan	sun	34
Montreal	shower	25
Moscow	shower	20
Munich	fair	32
Nairobi	fair	25
Naples	sun	34
Nassau	fair	33
New York	thund	29
Nice	sun	27
Nicosia	sun	34
Oslo	rain	16
Paris	shower	23
Perth	shower	15
Prague	fair	31
R' de Janeiro	shower	22
Rangoon	cloudy	32
Reikjavik	rain	13
Riyadh	fair	45
Rome	sun	31
S' Francisco	hazy	22
Seoul	rain	24
Singapore	rain	27
Stockholm	cloudy	20
Strasbourg	thund	31
Sydney	shower	18
Tel Aviv	sun	33
Tokyo	fair	31
Toronto	shower	22
Tunis	sun	36
Vancouver	rain	21
Venice	fair	30
Vienna	sun	32
Warsaw	fair	26
Washington	thund	29
Wellington	shower	11
Winnipeg	thund	29
Zurich	fair	32

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

UAL results exceed expectations

United Airlines' parent, UAL, revealed better-than-expected second-quarter earnings of $22m, or 54 cents a share. But it noted the results were still far from satisfactory and warned that further cost-cutting was necessary. Page 22

Earnings slide at RJR

RJR Nabisco, US food and tobacco group, announced an 11 per cent fall in second-quarter net income to $77m, as the US cigarette price war US continued to take its toll. Page 20

Bass to sell off-licences

UK's biggest brewer, Bass, confirmed it is negotiating the sale of its Augustus Barnett off-licence chain to Allied-Lyons, the food, drinks and retailing group, in a £40m deal. Page 20

Christiania Bank back in profit

Christiania Bank, Norway's second-biggest, has returned to profit. Operating profit was NKr348m ($47.4m) for the six months to June, against a loss of NKr131m previously. Page 21

Disney income improves 10%

Walt Disney, the US entertainment group, saw a 10 per cent gain in underlying third-quarter net income, despite a significant loss on its investment in Euro Disney in the quarter. Net income for the three months to June 30 was $259.1m, or 48 cents a share. But the company lost $30.9m on the quarter. Page 22

Merck to buy drugs distributor

The proposed takeover of Medco Containment Services, the US's biggest drugs distributor, by Merck, the country's (and the world's) largest manufacturer of pharmaceuticals could be a grab for market-share – or it could herald vertical integration in health care. Page 22

ITT net income up 152%

ITT, the diversified US conglomerate, reported a 152 per cent jump in second-quarter net income to $267m, following improved performances from all but one of its eight main business lines. Page 22

LWT profits up 20%

LWT (Holdings) announced pre-tax profits of £16.5m for the half-year to June 30 – up 20.5 per cent on the same period of 1992. Sir Christopher Bland, chairman, said the company's profit margins were among the highest in the industry. Page 26

Jo'burg's solid investment

In uncertain times, gold bulls at least can smile. The performance of the JSE this year has been dominated by the 250 per cent gain in the All Gold index to its current level of 1,970, from 786 at the start of the year. Back Page

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)

Rises			
GEHE	380.5	+	7.5
Hochtief	1085	+	22
Philips Kommun	516	+	12
Sud Chemie	480	+	25
Falls			
Bilf. & Berger	900	–	20
Colonia Konzern	1350	–	35

NEW YORK ($)

Rises			
American Intl	47⅝	+	2⅝
Chrysler	44	+	1⅜
General Motors	47½	+	½
ITT	88¾	+	1¼
Lincoln National	40	+	2
Transamerica	47⅝	+	2⅝

New York prices at 12.30pm.

PARIS (FFr)

Rises			
Axa	1390	+	47
Essilor Int	509	+	33.8
Lafarge Coppee	418	+	22
Saint Gobain	572	+	23
Falls			
Fonc Lyonnaise	670	–	33
Taittinger	1800	–	75

TOKYO (Yen)

Rises			
Fuji Spinning	547	+	34
Mercian Corp	855	+	55
NHK Spring	568	+	83
Nissei Sangyo	1440	+	90
Sanrio	2110	+	140
Shokusan Jutaku	597	+	51

LONDON (Pence)

Rises			
Ashley (Laura)	100	+	6
Bibby (J)	85	+	7
Cable & Wire	614½	+	26½
Comac	85	+	5
Dale Electric	110	+	6
First Nat Fin	85	+	7
Glynwed	310	+	15
Harrisons Cros	188	+	11
Hepworth	371	+	14
Holders Tech	143	+	11
ICI	666	+	16
Lex Service	411	+	18
Peel Hldgs	261	+	12
Pifco A	495	+	25
Prov Financial	400	+	13
Redland	504	+	16
Saville Gordon	47	+	3
Smiths Inds	369	+	12
Unitech	258	+	10
Zeneca	646	+	24
Falls			
Abbey Panels	233	–	25
Andrews Sykes	90	–	10
Brit Fittings	69	–	6
Radius	39	–	6

Turnround at home revives GM

By Martin Dickson in New York

GENERAL Motors yesterday underscored the improving US vehicle market and the fruits of its profit restoration effort in North America by reporting second quarter net income of $889m.

The figure, which worked through at 92 cents a share, compared with a loss of $703.2m, or $1.18 a share, in the same period of last year, when the company took a $749m restructuring charge at its GM Hughes Aircraft subsidiary. Excluding that, 1992 earnings were $46m.

Sales and revenues were up 3.9 per cent at $36.7bn. The figures were in line with market expectations and GM's shares slipped $¼ to $46⅞ in early morning trading on the New York Stock Exchange.

GM is in the throes of a huge cost-cutting programme in its key North American vehicle operations, which last year lost $4.5bn on the basis of earnings before interest and tax (EBIT).

It said yesterday it was on target to achieve its aim of break-even on an EBIT basis in North America this year. In the second quarter it made $675m, against a loss of $298m a year ago, and for the first half its earnings totalled $1.2bn, compared with a loss of $2.49bn.

However, the second half of the year, which involves many model changes, is usually tougher financially than the first and GM also faces potentially difficult negotiations with the United Auto Workers over a new three-year labour contract.

On a net income basis, its North American operations were still $95m in the red in the second quarter, down from $761m in 1992. Company officials acknowledged there was still a long way to go to restore North America to acceptable profitability.

GM's share of the US vehicle market dipped to 34.8 per cent, against 35.5 per cent a year earlier. It said this was due to its strategy of reducing less profitable sales to hire-car companies.

Its international automobile operations earned $368m, up from $284m, helped by a strong sales and financial performance in Latin America. Its European operations were profitable, despite the severe downturn in many continental markets, although profits were lower than last year.

Mr Rick Wagoner, chief financial officer, said the European market might be close to the bottom. But it could bump along there for some time, with recovery only beginning in late 1994 or 1995.

The group's financial services business, General Motors Acceptance Corporation, contributed $285m of income, compared with $282m, while GM Hughes Electronics made $232m, against a loss of $597m after special charges. The Electronic Data Systems subsidiary made $178m, up sharply from $157m.

For the first half, GM recorded net income of $1.4bn, against a loss of $21.7bn – mostly a non-cash accounting charge.

Lex, Page 18

RJR pins fall on cigarette wars

By Patrick Harverson in New York

RJR Nabisco, the US food and tobacco group, yesterday announced an 11 per cent decline in second quarter net income to $77m, as the US cigarette price war continued to take its toll.

Mr Charles Harper, chairman and chief executive, said: "The extremely competitive domestic tobacco environment led to a significant decline in our earnings." Annually, RJR's US cigarette business accounts for more than half group operating profits.

The price war began in April when Philip Morris, RJR's biggest US rival, cut the prices of its flagship Marlboro brand in an attempt to halt the growing popularity of discount cigarettes. RJR then lowered the prices of its Winston and Camel brands.

Mr Harper issued a warning about the group's earnings prospects, saying that RJR expected to incur "significant expenses" as it adjusted to the changing business environment. "Those expenses, along with lower domestic tobacco revenues, will further depress our financial results through year-end."

The warning and the lower profits hit RJR's shares, which eased $⅛ to $5¼ – a 52-week low – on the New York Stock Exchange.

RJR's second quarter profits would have been higher but for an after-tax charge of $65m related to the repurchase and retirement of debt. RJR's results in the same quarter a year ago were also affected by a charge.

Excluding the special items, RJR's earnings in the latest quarter were 32 per cent lower than in the same three months of 1992. Operating income fell 24 per cent to $582m and net sales dropped 7 per cent to $3.72bn.

RJR's worldwide tobacco business saw net sales fall 13 per cent to $2.03bn, following a 20 per cent drop in domestic sales. The company said, however, that the price cuts and increased promotion should lead to improved sales of its top brands.

The food businesses reported a modest improvement in second quarter sales to $1.69bn, reflecting better biscuit volumes, cost savings and contributions from acquisitions.

The news of RJR's falling profits comes a month after the group abandoned plans to raise $1.5bn through an offering of shares pegged to the performance of its food division.

Matif and DTB speed up links

By Alice Rawsthorn, Ariane Genillard and Sara Webb

THE MATIF, the French futures and options exchange, yesterday unveiled plans to accelerate co-operation with Deutsche Terminbörse, its German counterpart.

The exchanges, two of Europe's largest futures markets, had already agreed to link their operations, so that traders in each market would have direct access to the other. This involves the Matif installing the DTB's computerised trading system. The two have now decided to extend their co-operation to trading and clearing, which could involve pooling software.

Mr Jörg Franke, DTB chief executive, said the partnership aimed to "address the needs of investors who want to trade cheaply without borderlines". The Matif and DTB hoped the collaboration would improve liquidity and cut costs to investors, enabling them to counter competition from banks' over-the-counter products.

They are also considering opening up their partnership to other international exchanges. The Matif said a number of markets had expressed interest, although the London International Financial Futures and Options Exchange (Liffe) was not believed to be among them. The Franco-German partnership could pose a threat to Liffe, still the biggest single futures exchange in Europe.

The first phase of the Franco-German agreement will come into force next year, when Matif members will start to trade directly in DTB interest rate products, including German government bonds.

In the second phase, the French will buy a licence to use DTB software, enabling some Matif products to be traded electronically. This system will then be opened up to DTB members.

Matif members will choose two products – from among its Ecu bond futures and options, three-month Pibor futures and options, French medium-term futures and CAC-40 stock index futures – to be listed on the system. The two will then cease to be traded on an open outcry system.

Mr Roger Barton, of Liffe, welcomed the co-operation between the Matif and DTB, saying "exchanges should increasingly be looking at co-operation".

But Liffe would pay close attention to the fact that two Matif products would cease to be traded on the exchange floor. He suggested the move could "present a business opportunity" for Liffe to trade the products on its floor instead.

When phase two of the Matif-DTB plan is complete in 1995, the pair will consider closer ties.

Andrew Adonis charts STC's fate since its takeover by Northern

Poorer but wiser after UK foray

Two years ago Northern Telecom of Canada hailed its $3.61bn (£2.42bn) purchase of the telecommunications side of STC, the UK electronics group, as a decisive European breakthrough.

Last week the Canadian equipment manufacturer announced a second quarter loss of more than $1bn, a $500m write-down of the $1.8bn goodwill acquired with STC, and the $900m sale to Alcatel of France of what many see as the jewel in the STC crown – its submarine systems division.

Mr Jean Monty, Northern's new chief executive, said the write-down and disposal were needed because STC "had not lived up to expectations in the short-term".

The former STC business is not at the heart of Northern's problems. Mr Ted Larkin, telecoms analyst with Bunting Warburg in Toronto, says it plays "only a small role in the big picture at Nortel". The North American central office switching business, which accounts for about half of revenue, is "centre stage".

However, the fate of STC, which until its sale to Northern was the UK's second largest telecoms equipment supplier, is a commentary on the undiminished enthusiasm in the industry for cross-border alliances and acquisitions. And the particular fate of STC Submarine Systems puts in question future UK research on the leading edge of advanced fibre-optic technology.

'Northern's main gain from STC was a UK base with a sales force they can use to sell their own products'

Even in 1990 Northern's purchase of STC for a sum equivalent to more than half its own value got a lukewarm reception. Northern was widely thought to have paid too much; the fit between its Canadian and UK businesses was far from close; and the rationale for the purchase as an entrée into "post-1992 Europe" was questioned.

Last week's events appear to bear out all three concerns. After two years of retrenchment in the STC business and the disposal of nearly 10 of its divisions, the acquisition is hardly a model for future overseas advances.

Company sources in the UK say that Northern expected the synergy between the Canadian and UK transmission businesses to yield more than it has. Expectations of its value as an entrée to the continent were also overblown, with the continent far less welcoming to overseas suppliers than the "1992" hype of the late-1980s led Northern to expect.

"In retrospect, Northern's main gain from STC was a UK base with a sales force they can use to sell their own product lines," says Mr Larkin.

He points to Northern's joint venture with Matra, the French electronics group, and its current negotiations with Bosch for a similar arrangement, as showing that it now views direct investment in local partners as the best way into individual EC markets – yielding the advantages of access and local facilities without the up-front cost or the hassle of managing unfamiliar businesses as part of an acquisition.

Mr Ian Craig, Northern's European director, implicitly accepts this, stressing partnerships as "the way of the future". "We have 20 partners across the continent, five in joint ventures, and we intend to build on that."

Northern insists it has no plans to withdraw further from the UK. The switching, transmission, radio/microwave and integrated networks divisions of the former STC are now "fully integrated" into Northern's product divisions. Mr Craig says earnings from the UK operation are about 25 per cent up on last year and orders nearly a third ahead.

For Alcatel, which already has a thriving undersea cable division, the purchase of STC Submarine Systems exemplifies the policy of "niche" acquisition to bolster existing strengths. STC's success in the North American market, in which AT&T is a powerful competitor, will complement Alcatel's position in the Mediterranean region and leave the new alliance well placed to dominate the undersea cable market.

For the UK, however, Alcatel's move puts in the balance the survival of an undersea cable business with an integrated R&D and manufacturing capacity.

At present, STC Submarine Systems makes laboratory prototypes and carries out basic research at an R&D centre in Harlow; component engineering takes place at Paignton; and systems engineering and manufacture of advanced prototypes take place at its Greenwich base in London.

Only Greenwich goes with the sale to Alcatel. To keep access to the fibre-optic research for its transmission products, Northern Telecom is retaining the Harlow and Paignton facilities. The submarine cables division will be given continued access to them through an arms-length service agreement, but of necessity that arrangement can only be short-term.

What then? "I only hope that Alcatel will keep an integrated research and manufacturing capability in the UK, otherwise they will get nothing for their investment," says Dr Saul Lanyado, STC Submarine System's managing director. Alcatel has yet to decide what to do, but such a course is far from certain, given the company's R&D capacity in France and the fact that the sale itself destroys the integrated UK capability.

Meanwhile, a share in GPT, the last of the main UK-based telecoms suppliers, has been sold by GEC, its parent, to Siemens, the German electronics group, which is thought to be keen to buy the remainder.

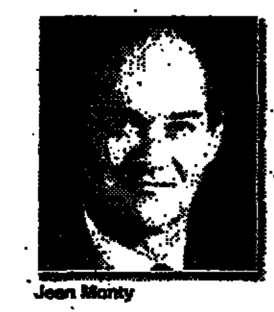
If that happens, and STC Submarine Systems is broken up, Britain's telecoms equipment industry will be predominantly a manufacturing outpost for overseas companies. That would be perverse, given the UK's position at the forefront of the international telecoms services industry.

And it is only four years since STC was toying with joining a consortium to buy GEC – from which it would have got GPT.

STC's eventful history

Sir Kenneth Corfield

Arthur Walsh



Jean Monty

- **1982** ITT of the US relinquishes majority control of Standard Telephones and Cables
- **1984** STC takes over ICL, Britain's largest computer manufacturer, for £411m
- **1985** £168m rights issue at 190p - shares subsequently sink to 86p as company warns of loss; Sir Kenneth Corfield resigns as chairman and chief executive; Arthur Walsh, ex-GEC, appointed chief executive; workforce cut from more than 50,000. Annual loss after charges: £54m on sales of £2bn, no dividend
- **1986** $350m contract to supply first private optical fibre transatlantic telecoms cable; STC returns to £134m pre-tax profit - ICL contributes £90m operating profit on sales of £1.2bn
- **1987** Northern Telecom takes 27.5 per cent stake in STC
- **1990** STC sells 80 per cent of ICL to Fujitsu for £743m; Northern pays £1.9bn for the remainder of STC
- **1991-** Series of disposals
- **1993** Northern announces $1bn second-quarter loss, including $500m write-down on STC, and the $900m sale of STC Submarine Systems to Alcatel of France

Zeneca debuts with 41% rise

By Paul Abrahams in London

ZENECA, the bioscience group floated by Imperial Chemical Industries, yesterday reported a 41 per cent rise in pre-tax profits as part of its first set of results.

The pre-tax figure advanced from £261m ($389m) to £367m for the six months to June 30. Zeneca's shares gained 24p to 646p.

The company, which manufactures pharmaceuticals, agrochemicals and speciality chemicals, reported sales up 13 per cent from £2.06bn to £2.32bn.

Profits and sales benefited from sterling's devaluation. Group trading profits rose 26 per cent to £412m, of which 7 per cent came from underlying volume growth, 3 per cent by price increases and 16 per cent by cost cuts and exchange rates movements.

The pharmaceuticals division's trading profits advanced 34 per cent to £302m, on sales up 22 per cent to £924m. Underlying volume growth was 7 per cent.

The division did well in the hospital drugs market which did not suffer as much as the general practitioner market in Germany, Italy or the US.

Sales of Tenormin, Zeneca's best-selling drug, fell 22 per cent to £242m, following the expiry of US patents. The decline was more than offset by new products.

Mr David Barnes, chief executive, said he was looking at a range of options in pharmaceuticals, including joint research and development, product swaps, co-marketing deals, and mergers and acquisitions.

Agrochemicals reported trading profits down 11 per cent to £85m, on sales up from £748m to £825. At constant exchange rates, turnover fell 3 per cent.

A 4 per cent rise in agrochemicals sales in the US was offset by a decline in Europe generated by a collapse in the German and French markets, down 40 per cent and 25 per cent respectively – both hit by CAP reforms.

Earnings per share were 33.3p, against 24.6p. The first interim dividend is 10.5p.

● Shorn of Zeneca and its fibres operations, sold to Du Pont, ICI's first-half profits before tax and exceptional items rose from £146m to £167m. Trading profits were up from £149m to £180m.

The results benefited from currency movements and cost savings. Mr Ronnie Hampel, chief executive, said it was essential to pursue restructuring programmes vigorously.

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Argentaria rises 14.6% to Pta43bn after provision

By Tom Burns in Madrid

ARGENTARIA, the state-controlled Spanish banking group that was partially privatised earlier this year, lifted first-half net profits by 14.6 per cent to Pta43.1bn ($324m) after putting aside a Pta49.5bn provision for non-performing loans.

The profit figure was due to high earnings in fee commissions which were up by 13.3 per cent to Pta24.2bn and, in particular, to sharply increased extraordinary income which was up 33.6 per cent and realised Pta40.1bn.

Reflecting Argentaria's tightened management structure, nearly half of the extraordinary income was raised through loans recoveries.

The banking group's provisions, which increased by 45.6 per cent against the first six months of last year, raised Argentaria's non-performing loan coverage to 91.4 per cent.

Argentaria reported an improved return of assets, to 0.87 per cent from 0.81 per cent in the first half of last year. The group's return of equity was up to 15.31 per cent from 14.60 per cent.

In early May, Argentaria placed just under 25 per cent of its shares on the market in an offering aimed at both the domestic retail market and foreign institutions. By the end of June, the offered share price of Pta3.800 had revalued by 24.3 per cent to Pta4.725.

● Banco Essi, the investment banking subsidiary of Portugal's Espirito Santo Financial Holding, has joined Mr George Soros, the investor, in establishing a $100m development capital fund, Reuter reports from Madrid.

The new fund, Espirito Santo Development Capital Investors, will make equity and equity-related development capital investments in companies located in Portugal or with significant business activities in that country.

"Esdcil's objective is to achieve long-term capital appreciation on its investments," Espirito Santo said.

The lead investor will be Soros Capital, which will contribute $50m, while the Espirito Santo group will contribute $7m to the new fund, through Banco Essi.

The Portuguese group did not say who would contribute the rest of the capital.

Soros Capital would be the vehicle through which Quantum Emerging Growth Partners would conduct some of its investment activities, the Portuguese group said.

Quantum Emerging Growth Partners is an open-end investment fund set up in 1992 principally advised by Soros Fund Management, which is solely-owned by Mr Soros.

A representative of Soros Capital will be appointed to Esdcil's board of directors as well as to the executive and advisory committees.

Sharp rise at Bank Austria in first half

By Ian Rodger in Zurich

BANK Austria, Austria's largest bank, has reported a sharp improvement in earnings in the first half and forecast a 26 per cent rise in full-year pre-tax profits to Sch4.3bn ($358m).

Improved interest margins, active securities markets and rationalisation measures following the 1991 merger which created the bank, contributed to a 51 per cent jump in first-half pre-tax profits to Sch2.01bn.

Mr Rene Alfons Haiden, the chief executive, said the bank expected for the second half "a basic continuation of the positive tendencies in the first half".

The bank announced that it planned to launch an American Depositary Receipt (ADR) programme on its preferred shares in the autumn. Last year, it started ADRs on its ordinary shares.

A London listing was postponed earlier this year because of the bank's poor 1992 results. It would be considered next spring at the earliest, the bank said.

In the first half, net interest income grew 11.6 per cent to Sch5.8bn due largely to the unwinding of an inverted yield curve during the period.

The bank said lending business was sluggish, and loans outstanding fell 0.8 per cent to Sch349.2bn. Commission income was flat at Sch1.23bn.

Partial operating profit, which excludes securities trading for the bank's own account, soared 41 per cent to Sch1.15bn. The bank cautioned that this growth rate figure, like that of pre-tax profit, was flattered by the depressed banking conditions in the first half of last year.

Total assets grew 3.3 per cent to Sch562.8bn.

The bank said its rationalisation programme was on schedule. The number of employees has been cut to 9,350 from 9,924, since the merger, and 18 of a planned 86 branch mergers completed.

Bank Austria is 51 per cent owned by two institutions controlled by the city of Vienna.

Government 'would look at Fnac deal'

By Alice Rawsthorn

MR EDMOND Alphandéry, France's economy minister, yesterday said the government would examine the impact of a change of ownership at Fnac, France's largest books retailer.

GMF, the mutual insurance group that owns Fnac, has announced plans to sell a 55 per cent controlling stake to Altus Finance, part of the Crédit Lyonnais banking group, and Générale des Eaux, the utility and media concern.

However, the prospective purchasers have only agreed to take an option on the stake and have until October to decide whether to exercise it.

Mr François Pinault, head of the Pinault-Printemps retailing group, has also indicated an interest in Fnac.

Mr Alphandéry said the government "would not shirk from examining the effect" of a change in Fnac's ownership "whoever takes over the company".

DSM passes payout as profits plummet

By Ronald van de Krol in Amsterdam

DSM, the Dutch chemicals group, posted a sharp drop in second-quarter profits and warned that it expected a "clearly negative" result in the third quarter.

The company, which has been hit by the recession in Europe, omitted its interim dividend but refused to be drawn on whether it would pay a dividend for the full year.

Net profit in the second quarter dwindled to Fl 4m ($2.1m) from Fl 110m a year earlier, repeating a pattern set in the first quarter when profit slumped to Fl 6m from Fl 100m.

It blamed the downturn on lower gross margins for ethylene derivatives, captrolactum, melamine and fertilisers, as well as on lower sales volumes. Turnover fell by 14 per cent to Fl 4.2bn.

Recession has hit demand from leading customers such as Germany's carmakers, which account for nearly 15 per cent of DSM's annual turnover through their purchases of engineering plastics and elastomers..

Mr Ad Timmermans, a DSM board member, said the weakness of the economy in Europe and the traditional summer lull meant the company would fall into a loss for the July-September period.

But Mr Timmermans said the company could make no prediction for the second half or for the 1993 dividend.

He said the omission of the interim dividend "provided no indication for the final dividend," which would be decided in February, partly on the basis of the outlook for 1994.

In 1992, DSM cut its dividend by half after suffering a 57 per cent decline in annual profits.

DSM's shares fell by 8 per cent at the opening in Amsterdam, but recovered during the day to close at Fl 95.40, up slightly from Wednesday's finish of Fl 94.50.

Underwriting holds back Allianz

By Richard Lapper

ALLIANZ, Germany's largest insurance company, yesterday reported a dip in pre-tax profits to DM1.62bn ($953m) in 1992 after suffering its first underwriting losses in its domestic market since 1971.

The result, which compares with pre-tax profits of DM1.78bn in 1991, was better than most analysts had expected, mainly because of an improved performance by overseas subsidiaries.

After-tax profits fell to DM857.9m compared with DM1.048bn in the previous year, due to a higher tax charge. Earnings per share (calculated on the same basis as UK and US companies) were DM26 compared with DM25.05, a rise of 29.7 per cent.

Underwriting losses in the German non-life market, where Allianz has a 17 per cent share, reflected heavy motor theft and weather-related claims. They were offset by an improvement in the results of foreign subsidiaries, which were helped by effect of cost-cutting and higher premium rates.

Allianz subsidiaries in the UK (Cornhill), Italy (RAS), France (Allianz Via) and the USA (Fireman's Fund) improved their underwriting results by DM350m. Overall underwriting losses were DM1.68bn compared with DM1.78bn in 1991.

Investment income amounted to DM3.305bn, DM250m less than in 1991 when extraordinary earnings from an asset swap, involving the group's Austrian subsidiary, amounted to DM484m.

"Allianz is in good shape for the single market. The company is leaner, more streamlined and even more customer-oriented," said Dr Henning Schulte-Noelle, chief executive.

Overall premium income rose by 12.3 per cent to DM54.7bn, of which DM29bn is generated from Germany.

The figures reflected the consolidation for the first time of figures for the second half-year from Deutsche Krankenversicherung, Allianz's health insurance subsidiary. At an underlying rate, income grew at a rate of 10 per cent.

Deutsche Versicherungs (DVAG), the former east German state-owned insurer acquired by Allianz in 1990, saw its premium income increase by 20 per cent, partially because of increases in premium rates.

The group is expecting further growth in premium income in 1993 to DM60bn but says its main focus is on improving underwriting results, through premium increases, restrictions in cover and cost cutting. The group lost 4,000 employees in 1992, mainly because of a shake-out at DVAG, and plans further reductions in 1993, cutting staffing levels from 63,000 to 60,000 people.

Telecom sales match Sip expectations

By Haig Simonian in Milan

SIP, Italy's main telephone operating utility, reported sales of L9,451bn ($6m) in the first five months of this year. The company failed to produce comparable figures for the corresponding period in 1992, but claimed its results were in line with expectations.

The company said sales for the first half, due to be released in September, would be similar to the L10,601bn reported in the first six months of 1992.

The figures came as the Italian government gave its approval to the restructuring plan for the telecommunications sector, dominated by Stet, Sip's parent company, which is in turn controlled by the IRI state holding group.

The plan envisages the streamlining of the complex telecoms sector, which currently includes seven leading public sector groups, and the creation of a single entity, tentatively called Telecom Italia.

In a first move, Sip is expected to merge with Italcable, the long-distance international carrier, early next year.

Mr Ernesto Pascale, Sip's chairman, said the company would not be seeking across-the-board tariff increases next year, but said it would try to restructure charges within existing ceilings.

The number of telephone subscribers rose to 23.9m by end-May, while subscribers to Sip's highly-profitable mobile telephone service climbed to 864,000.

● Sogefi, the Italian auto components group controlled by Mr Carlo De Benedetti's Cir holding company, is setting up a joint venture with Arvin Industries of the US to rationalise their car exhaust systems businesses.

The new company, which will have sales of about L300m and 1,600 employees, will be Europe's biggest producer of silencers. It will have four factories in Italy, France and the UK.

The joint venture, combining Arvin's US exhaust technology with Sogefi's European sales and commercial know-how, will be geared exclusively to the replacement market.

Lex Service acquires Arlington for £49.5m

By Paul Taylor in London

LEX Service is consolidating its position as the UK's largest car distribution and leasing company by acquiring the Arlington group of 36 car and truck dealerships from Unigate for £49.5m ($73.8m) in cash, including the repayment of £20m in debt.

The acquisition will increase the number of Lex car, van and truck dealerships to 129, well on the way to the group's target of 150 and more than its main rivals, Inchcape, Hartwell, AFG and T. Cowie, according to figures supplied by Automotive Management.

It will increase Lex's share of the new car sales market in the UK to 3.6 per cent from 3.1 per cent.

The deal, which will be completed tomorrow, is an important step for Unigate, which has been refocusing its business on food and distribution. The proceeds of the sale will be used to reduce existing borrowings with gearing expected to drop to about 43 per cent from about 60 per cent.

It comes less than three months after Unigate was forced to postpone the planned public offering of Black-eyed Pea and Taco Bueno, its US restaurant businesses.

UK brewer to offload drinks retail chain

By Philip Rawstorne in London

BASS, the UK's leading brewer, yesterday confirmed that it was negotiating the sale of its Augustus Barnett drinks retail chain to Allied-Lyons, the food, drinks and retailing group.

The long-rumoured deal, worth about £40m ($59.7m) according to industry estimates, would consolidate Allied's position as the country's second-largest specialist drinks retailer, combining its 970 Victoria Wine outlets with Augustus Barnett's 540 shops.

Whitbread's Thresher chain, lifted by the £49.5m acquisition of 667 Peter Dominic outlets from Grand Metropolitan two years ago, is the leading retailer with 1,600 shops and a 10 per cent share of the take-home drinks market.

The merger of Victoria Wine and Augustus Barnett would give Allied an 8.6 per cent market share, well ahead of other specialists such as Oddbins and Cellar 5 with shares of under 2 per cent.

It would increase sales opportunities for its spirits and beer brands, improve its purchasing power and enable it to compete more effectively against the grocery multiples.

INTERNATIONAL COMPANIES AND FINANCE

Christiania bounces back to black

By Karen Fossli in Oslo

CHRISTIANIA Bank, Norway's second-biggest bank, has bounced back to profit during the first six months, helped by securities gains, increased net interest income and a reduction in credit losses.

The bank's operating profit, after credit losses, was NKr348m ($47.4m) for the six months to June, against a loss of NKr131m previously. Net profits totalled NKr324m, compared with a loss of NKr162m.

However, Christiania warned that problems in the fisheries industry – to which it has loans of NKr8bn – had forced up credit losses to NKr381m in the second quarter, from NKr261m in the first three months.

At the end of the second quarter, gross non-performing fisheries loans reached NKr2.2bn, while exposed commitments were NKr1.1bn. The bank has made specific provisions of NKr1bn to this end.

Christiania said its main exposure to the fisheries industry was loans to clients outside Norway – primarily in Seattle, where excess capacity in relation to fishing quotas had sharply reduced revenue.

The bank said it had been forced to lower the value of collateral covering fisheries loans and warned of considerable uncertainty attached to the new valuations. It charged accounts with NKr111m in a write-down of fixed assets, against NKr32m last year.

However, the tone of the bank's statement was generally upbeat. "Christiania's performance continues to improve and I note with satisfaction that in the second quarter the bank has again shown a net profit despite heavy losses within the fisheries sector," said Mr Borger Lenth, president.

First-half net interest income rose by NKr44m to NKr1.6bn as non-interest income increased by NKr377m to NKr1.18bn, including a NKr419m gain on securities against NKr75m last year.

The bank said the end-June market value of its share portfolio was NKr133m higher than its book value, while the market value of bonds and certificates was NKr58m higher.

During the six months, Christiania cut non-interest expenses by NKr38m to NKr1.41bn.

Norwegian medical group ahead at halfway

By Karen Fossli

HAFSLUND NYCOMED, the Norwegian group best known for its radiology products, yesterday reported a slight increase in first-half pre-tax profits to NKr782m ($106.4m) from NKr757m, but said it may double the dividend.

"The board will consider increasing the dividend per share for the current financial year by up to twice last year's distribution, bringing the pay-out ratio into line with other pharmaceutical companies," Hafslund said.

The company paid a total of NKr2.20 a share last year.

Group sales improved by NKr175m to NKr2.793bn for the six months, following an increase in royalties to NKr361m from NKr72m.

Operating expenses increased by NKr34m to NKr1.797bn.

Operating profit fell by NKr101m to NKr741m, including research and development costs of NKr361m against NKr341m last year.

However, Hafslund said that operating profit – once it had been adjusted for the shipping business spun off last year into a separate bourse-listed company – had risen by 2 per cent.

● Dyno Industrier, the diversified industrial group, reported a *fall in* first-half pre-tax profits to NKr144m from NKr154m.

Sales rose by NKr176m to NKr4.005bn, helped by acquisitions and a higher dollar exchange rate.

"While the European recession continues to affect profits for the explosives group and parts of the plastics group, the rest of the corporation's operations produced profits above or near last year's levels," the company said.

Dyno forecast continued improvement in chemicals and automotive parts, but warned of low demand for explosives in Scandinavia.

Loss at Sumitomo Chemical

By Gordon Cramb

SUMITOMO Chemical, the Japanese chemicals and aluminium producer, has fallen into loss for the six months ended June – its first since 1986 – and will not pay an interim dividend.

It blamed the performance, which came on an 11 per cent fall in sales to Y285.9bn, ($2.7bn), on "the long-lasting economic recession in Japan and the rapid yen appreciation during the period."

Exports, which represent about one-eighth of sales, were down 14 per cent.

The pre-tax loss of Y2.93bn (in large measure stemming from a Y2.83bn operating loss) compares with profits of Y9.08bn before tax in the same period of 1992.

Chemical volumes and product prices both declined, the company said, more than offsetting the benefit of cheaper raw materials.

The loss would have been worse but for a Y4.7bn gain on the sale of securities. The net loss was Y3.35 a share, against earnings of Y3.10, almost all of which last time was absorbed in an interim dividend payout of Y3 a share.

For the full year, Sumitomo Chemical expects sales of Y570bn, compared with Y624.2bn, but made no earnings forecast.

It said, however, that it did not expect a material impact on the results from an explosion earlier this month at an epoxy resin plant.

Moody's Japan, the credit rating agency, warned yesterday that credit risks of some of the country's chemicals companies could weaken in the coming years, for which it foreshadowed a "dramatic restructuring" involving a "permanent reduction in the number of players, something the industry has never experienced before."

Sumitomo Chemical's debt carries a Baa1 rating, higher than that of its peers.

Ingersoll-Rand in German buy

By Andrew Baxter

INGERSOLL-RAND, the US industrial and construction equipment group, is to expand its European interests with the purchase of a bearings business from Germany's struggling FAG Kugelfischer group.

The Torrington Company, I-R's wholly-owned bearings unit, is to buy Kugelfischer's needle and cylindrical bearing business, based at Künsebeck in Germany.

Terms were not disclosed, but Mr J. Frank Travis, I-R vice-president and president of Torrington, said the purchase "greatly expands our presence in the European bearing market."

The Künsebeck factory employs 1,200 and sells its needle bearings principally in Germany and western Europe.

Mr Travis said that its products would complement Torrington's existing bearing lines, and add significantly to its metric production capability.

Torrington already has plants in the UK and Spain, and joint ventures in France and Italy.

Mr Travis said the purchase would enhance its capability as a supplier to European carmakers and other customers in the European Community.

In January, Kugelfischer announced a restructuring plan to cut costs following heavy losses last year. Tougher measures were later announced, and Kugelfischer is planning to close or sell more than half its 17 factories.

Last month, it announced it was putting Deutsche Kugellagerfabriken Leipzig, a loss-making eastern German subsidiary, into liquidation.

NZ telecom company up 61.5%

By Terry Hall in Wellington

TELECOM CORP, the New Zealand phone company, yesterday reported a 61.5 per cent lift in tax-paid profits to NZ$118.2m (US$65.2m) for the three months ended June.

Mr Peter Shirtcliffe, chief executive, said the result heralded a very promising result for the full year.

Telecom, which is 60 per cent owned by Bell Atlantic and Ameritech, also announced plans for a capital restructuring which will reduce the number of shares on issue by 20 per cent and repay capital to shareholders.

Mr Shirtcliffe said Telecom had been boosted by robust volume growth in core markets and a "most satisfactory" reduction in operating costs. Operating revenues were little changed at NZ$597.5m.

Operating expenses fell by 15.1 per cent due to reduced personnel costs, depreciation and other operating expenses. Staff numbers have come down by 1,605 to 11,277 over the past 12 months. In May, the company announced plans to shed 5,000 staff over the next three years.

Earnings per share for the quarter were 5.1 NZ cents, compared with 4.1 cents.

On plans to restructure capital, Mr Shirtcliffe said that Telecom's assets were currently funded by capital at a ratio of 33 per cent debt to 67 per cent equity. This was more conservative than normal in the industry, he said.

The proposed restructuring was aimed at reducing the cost of capital.

Kirin cuts forecast for full-year profitability

By Gordon Cramb in Tokyo

KIRIN BREWERY, Japan's biggest beer producer, expects profits to fall this year, despite a 7.9 per cent increase to Y34.62bn ($326.6m) before tax for the first six months.

The company has cut its forecast for parent company pre-tax profits to Y80bn, down from the Y82.70bn it made for 1992 and the modest rise to Y83bn it had earlier projected for 1993.

That had been based on an assumed 3 per cent growth in beer sales, which Kirin now says has evaporated. Volume shipments have fallen, and revenue from the beer division edged ahead 0.4 per cent in the first six months. An unseasonably cool and rainy July will affect the second half.

Income is also thought likely to be affected by Kirin's temporary suspension of advertising following the arrest this month of senior executives on allegations of paying up to Y33m to *sokaiya*, racketeers who disrupt shareholders' meetings unless their financial demands are met.

Yesterday, the board accepted the resignations of Mr Hideyo Motoyama, the chairman, and two other managing directors, who are taking responsibility for the scandal. Although leaving the board, they remain advisers.

An earnings fall this year would be the second in a row for Kirin, which is labouring under economic downturn as well as the high capital costs of opening new breweries – meaning an extra Y5.8bn in depreciation charges for 1993.

First-half revenues rose 1.1 per cent to Y616.5bn, helped by a strong contribution from pharmaceuticals.

Net earnings per share, Y13.88 at the interim level against Y13.18, are expected to emerge at Y35.15 for the year, compared with Y35.6. Kirin intends to maintain a dividend of Y10, of which Y5 is being paid for the first half.

Competition's cold draught

Anheuser-Busch's defection looks set to shake up Japan's beer market, reports Gordon Cramb

JAPAN'S brewers are starting to be hit by the cold draught of competition. A number of shifts are taking place in the beer market, none of which look likely to favour the big four domestic producers.

● Poor weather, along with the economic downturn, was blamed for a 1.1 per cent fall in volume shipments for the first six months of this year, and the summer is forecast to be short.

● Price discounting by larger retailers is taking hold, and may force down margins.

● Hefty marketing outlays are required to woo increasingly fickle consumer tastes.

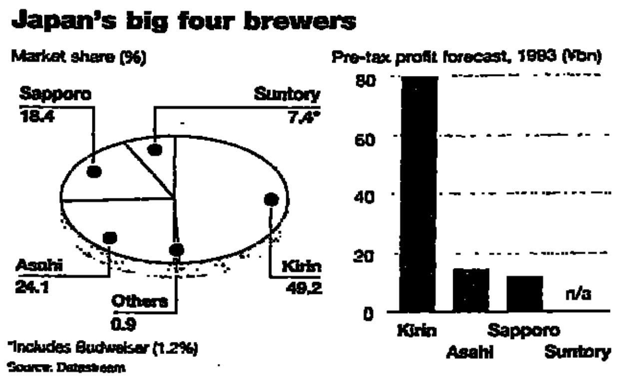
● After a capital spending binge, the brewers' international credit standing is being questioned.

On top of that, there is Budweiser, America's biggest-selling beer. Anheuser-Busch has sold its beer in Japan for more than a decade, and has brewed and bottled it under licence since 1984 in an arrangement with Suntory, a privately-owned spirits distiller which is also the smallest of the four brewers.

The US giant is now defecting to Kirin, Japan's biggest brewer, leaving Suntory as the first casualty of the changing trading climate. Sales of Budweiser, although only some 1.2 per cent of the overall market, account for the vast majority of foreign beer sales in Japan and nearly one-sixth of Suntory's 7.4 per cent share.

Most industry watchers, however, see the benefits as more apparent for the US partner. It will have 90 per cent of the venture, called Budweiser Japan, with the remainder held by Kirin, whose earlier expectations of a 49 per cent stake were scuppered by the Fair Trade Commission, Japan's monopolies watchdog.

Kirin officials spoke this week of "both material and less tangible merits" from an association with the world leader. But in spite of slow demand and a new plant which came on stream in May, they say their company does not need Budweiser to mop up excess capacity. They acknowledge that Budweiser is a potential rival to Kirin.



The relationship, contracted to last 10 years, will give Busch access to Kirin's bigger and more cohesive distribution network – for the most part, its wholesalers deal exclusively in products sanctioned by Kirin. At the same time, Budweiser Japan will apparently be free to use other channels.

Busch says it is not ready to discuss strategy. But it is believed to be seeking a significantly larger share of the Japanese market – figures of 5 per cent or even 10 per cent are being suggested. Kirin says: "We don't know how much Budweiser we are to produce."

In order to attain that sort of penetration, Busch is thought to be prepared to price Budweiser very aggressively. Its strong majority position in the joint venture will mean that it can do as it wishes. Either the market share of Kirin's own brands – which has already fallen from 60 per cent to below 50 per cent over the past five years – or its profitability, as it adjusts pricing to match, may be another casualty of the Busch push.

Moody's Japan, in a report on the industry, argues that the US beer giant's different cost structure from the domestic companies means that they "may find it difficult to predict Anheuser-Busch's pricing strategy in Japan".

Pricing structures and the distribution system for beer in Japan are both under pressure. According to Moody's, the ability of Kirin, Asahi, Sapporo and Suntory to co-ordinate price increases is on the wane.

Regulatory scrutiny may be tightened, the credit rating agency says, but changes to the liquor tax law have already allowed in supermarkets and other store chains, which have greater muscle to demand discounts.

The brewers' networks have traditionally supplied small family-run outlets, and commonly undertake home delivery. The recent arrivals, by one estimate, now account for more than 10 per cent of all beer sales. Also, they offer a wide variety, "resulting in increased opportunities to switch brands".

Moody's urges the development of a broad portfolio of brands – rather than reliance on a single flagship label which may go out of fashion – in order to adjust to a maturing market which is also opening up.

At the same time, it warns that the aggressive capital outlays of recent years have weakened their financial strength and says their credit quality will remain under pressure.

Anheuser-Busch has put Y8.1bn ($76.4m) into the Kirin venture and, with its financial muscle, come September it could force the domestic brewers to put their past cosy relationship on ice.

Bank of East Asia lifts interim dividend

By Simon Davies in Hong Kong

BANK OF East Asia, Hong Kong's third-largest stock market listed bank, has increased first-half net profits by 22 per cent and will pay a higher dividend.

Net profit after transfers to inner reserves amounted to HK$198.2m (US$25.5m) for the six months to June, up from HK$162.7m in 1992. The interim dividend is being increased from an adjusted 22.9 cents a share to 27.5 cents.

The results were in line with analysts' expectations, and Mr David K. P. Li, chief executive, predicted a strong performance from the banking industry in the current six months.

Bank of East Asia traditionally launches Hong Kong's corporate reporting season, and it is seen as heralding another impressive set of results from the colony's banks.

In spite of the uncertainty from the Sino-British dispute over Governor Chris Patten's political blueprint, the property market has recovered and re-export growth has continued, providing momentum for domestic loan portfolios.

Mr Li said: "During the second half of 1993, domestic consumption and investment are expected to pick up following a relatively quiet first half, while the outlook for external trade is largely positive."

However, gross interest margins for the banking sector overall have been exceptionally wide over the past year, and in the face of increasing competition analysts expect to see a reverse in this trend.

● Winsor Industrial, the big textile group, yesterday disappointed stock market expectations by announcing a 4 per cent decline in earnings for the year ended March. Net profit amounted to HK$262.1m, down from HK$271.8m in 1992.

The company has continued to focus its attention on relocating production away from the colony, in the face of rising labour and land costs, and increasing competition in slow export markets. Profit margins weakened considerably in the second half of the year.

UAL tops expectations but warns of more cuts

By Karen Zagor in New York

UAL, parent of United Airlines, yesterday revealed better-than-expected second-quarter earnings of $22m, or 54 cents a share. But it noted the results were still far from satisfactory and warned that further cost-cutting measures were necessary.

The net income compared with a loss of $91m, or $3.80, in the same period of 1992 when vicious domestic fare wars and the effects of recession hurt the entire industry.

At the operating level, UAL had earnings of $84m, compared with a deficit of $93m a year earlier.

Operating revenues rose to $3.55bn from $3.14bn, while operating expenses were 7.1 per cent higher at $3.46bn.

Mr Stephen Wolf, chairman, described the results as "clearly unsatisfactory. While considerable progress was made on a relative basis on cost reduction, long-term viability in the domestic market requires substantial further reduction in unit costs".

Earlier this month, UAL's three main unions said they would make substantial wage concessions in exchange for a large equity stake in the company.

Mr Wolf said the revenue performance continued to reflect fare discounting on domestic and North Atlantic routes as well as continued weak demand in the Pacific.

United's cost per available seat mile fell 3.8 per cent to 9.09 cents in the quarter, largely as a result of a $400m annualised cost-cutting programme which started earlier this year.

United's yield – passenger revenue per mile flown – rose to 12.30 cents in the second quarter from 12.14 cents a year earlier. Its load factor averaged 67.4 per cent, against 67.3 per cent the previous year.

For the first half, UAL suffered a net loss of $115m, or $5.38 a share, excluding a one-time charge for debt retirement. A year earlier, UAL lost $199m, or $8.33, excluding the impact of accounting changes. Operating revenues for the first half rose 12.6 per cent to $6.88bn, while operating expenses were 8.5 per cent higher at $6.92bn.

European side hits Walt Disney

By Karen Zagor

WALT DISNEY, the US entertainment group, reported a 10 per cent improvement in underlying third-quarter net income in spite of a significant loss on its investment in Euro Disney in the quarter.

The company warned that Euro Disney expects to post a loss in the fourth quarter, which would affect Walt Disney's fourth-quarter results.

The investment in Euro Disney resulted in a loss of $30.9m in the quarter. Its equity share of Euro Disney's loss was partly offset by royalties and other income related to the investment.

Stripping out new accounting methods for pre-opening costs, the investment in Euro Disney would have resulted in a loss of $48.8m in the quarter.

Walt Disney's income for the quarter to June 30 was $259.1m, or 48 cents a share, compared with $220.8m, or 41 cents, a year earlier. Revenues rose 3.2 per cent to $1.94bn.

Stripping out the impact of accounting changes, net income rose 10 per cent to $242.7m, or 45 cents, in the latest quarter while operating income was 14 per cent higher at $477.2m.

For the first nine months, Disney's net income fell 36 per cent to $377.6m, or 69 cents, including accounting changes. A year earlier, it earned $593m, or $1.11. Stripping out accounting changes, net income rose 19 per cent to $707.9m, or $1.30. Revenues hit a record $6.35bn.

Decline at Xerox is steeper than expected

By Karen Zagor in New York

XEROX, which issued a profits warning in May, yesterday unveiled a sharper-than-expected decline in second-quarter earnings from its core document processing business.

For the three months to June 30, Xerox net income fell to $112m, or 96 cents a primary share, from $124m, or $1.12, a year earlier.

Income from the core document processing business fell to $111m, or 95 cents, from $124m, or $1.12, last year. Revenues slipped to $3.54bn from $3.55bn the previous year.

Xerox warned investors in May to expect an earnings downturn. Its shares then dropped $3⅛ to $72¼. The stock was $¼ lower at $71⅞ at mid-session yesterday. Most analysts had expected earnings of about $1.03 a share.

Xerox blamed some of its problems on the unexpectedly lengthy process of reorganising its sales force and the ensuing disruption. It said earnings were hurt by weak European economies and an unconvincing recovery in the US. Mr Paul Allaire, chairman, said: "The economic environment in both the US and Europe is causing customers to scale back spending on office equipment".

Document processing gross margins fell in the quarter, reflecting a shift towards low-end products with lower margins, pricing pressure and unfavourable currency translations.

Mr Allaire said Xerox would strive for earnings growth for the full year. But he noted the European economic environment would probably remain soft in the second half.

First-half net income was $301m, or $2.73 a share. A year earlier, the company took charges of $764m for accounting changes which contributed to a loss of $405m, or $4.56. Income from document processing edged 4 per cent higher in the period to $236m from $227m. Revenues were $6.84bn, against $6.86bn.

Merck seeks a new drugs formula

Richard Waters examines implications of the Medco takeover

THERE are two ways of looking at the proposed takeover of Medco Containment Services, the US's biggest drugs distributor, by Merck, the country's (and the world's) largest manufacturer of pharmaceuticals.

It could be a straight grab for market share by Merck in the face of fast-falling margins on prescription drug sales. Or it could be the beginning of a process of vertical integration in the healthcare field, leading to a more efficient delivery of drugs to users, bringing down overall healthcare costs and improving the effectiveness of treatments.

There is no doubt which of these interpretation Mr Roy Vagelos, Merck's chairman, was putting on his company's $6bn takeover of Medco, announced on Tuesday.

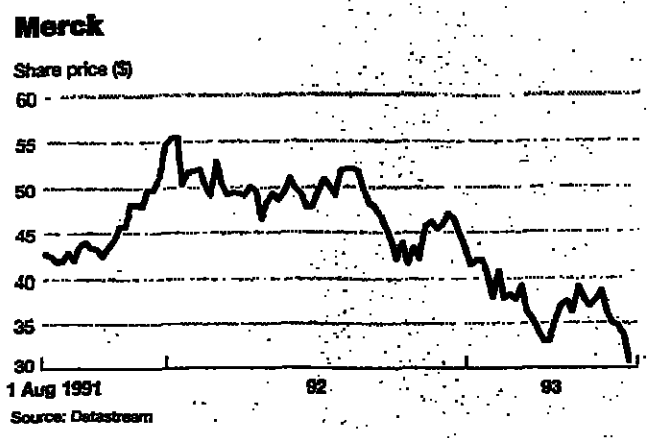
A revolution in drug provision is about to reshape the industry in the US and elsewhere, he said. The beneficiaries will be the users of drugs and the governments, corporations and others who are increasingly the ones who foot the bill.

Hospital admissions which result from misuse of drugs, duplicate treatments and the prescribing of excessive dosages together waste around $15bn a year, Mr Vagelos said.

By creating a closer link between the patients, doctors, hospitals, pharmaceuticals companies and the people who pay for drugs, the Merck/Medco link would make the provision of drugs more efficient. Medco's contribution: a database on customers and drugs usage which is unrivalled and which would take Merck years to duplicate, said Mr Vagelos.

Merck's vaunted claims for the takeover were directed in part at Washington, which could yet decide that the takeover violates anti-trust law.

They also reflect an attempt to reassure two other powerful groups: Merck's competitors, whose willingness to supply drugs to Medco at discounted rates have accounted in part for that company's success, and Medco's customers, who rely on the distributor to find them the most suitable and cheapest products in the market, whoever the manufacturer.



The market for anti-ulcer drugs could provide a litmus test for the future. A $2.5bn to $3bn market in the US, it is dominated by Glaxo's Zantac, which accounts for $1.5bn of the sales. SmithKline Beecham has its own contender, Tagamet, which sells $500m a year, while Eli Lilly has Axid, whose sales reach $150 to $200m.

Merck's own drug in this category, Pepcid, has sales of $400m. Will Pepcid now become the standard anti-ulcer drug recommended by Medco? And will Glaxo and others take pre-emptive action by reducing the discounts they give Medco on their products?

Both sides expect Medco's buying of Merck products to rise from its current $250m a year (or 9 per cent of Medco's total purchases.) Any increase, though, will result not from a desire to push Merck drugs, but from the fact the link-up would lead to Merck drugs becoming better designed, or better priced, to suit Medco customers, said Mr Martin Wygod, the distributor's chairman.

The stock market's interpretation of Tuesday's announcement was rather more down to earth than the vision outlined by Mr Vagelos.

By paying $6bn, Merck was diluting its earnings per share by 6 to 7 per cent, analysts said. The market was less clear about the benefits of integration, and a share price fall of $1⅞ on Tuesday was followed by another $¼ yesterday, to $30⅞, before the close.

The prices of all the big US pharmaceutical groups also lost ground on the news, which seemed to threaten an extra twist to the price war which has hit pharmaceutical company shares in recent months.

Pressure on drugs prices – caused not by the proposed health care reforms of the Clinton administration, but by a push by big drugs buyers to cut their bills – has driven pharmaceutical companies' shares down in recent months.

Discounts of up to 25 per cent are becoming familiar. According to Mr Viren Mehta, an analyst at New York-based Mehta and Islay, some $4bn of Merck's sales come from six big products. Each competes with similar drugs from other companies (in the jargon of the industry, they are "me-too" drugs") and so is vulnerable to severe discounting. A 25 per cent cut in these sales would wipe $1bn off Merck's turnover.

Meanwhile, the shares of other drugs distributors rose on the news, buoyed by a belief other big manufacturers would feel impelled to protect their distribution channels.

The trouble is, Medco stood head and shoulders above its competition: it is estimated to account for half the market in mail-order sales, and to account for as much as 10 per cent or more of all bulk-buying of drugs.

Both competitors and customers were digesting the news yesterday. Big customers like General Electric said it was too early to say whether they would need to reconsider their links with Medco.

Competitors, meanwhile, complained privately of the arrangement – though any retaliatory action would damage their own businesses, cutting them off from one the US's biggest distributor.

Anheuser Busch to step up dividend

By Karen Zagor

ANHEUSER-BUSCH, the biggest US brewer, posted essentially flat second-quarter net income on sales which edged 1.3 per cent higher, and said it would raise its quarterly dividend by 12.5 per cent.

For the 1993 second quarter, the company had net income of $308.6m on sales of $3.43bn, compared with earnings of $308.4m on sales of $3.38bn a year earlier. Fully diluted earnings per share rose 4.7 per cent to $1.11 from $1.06. There were fewer shares outstanding in the latest quarter.

The company also said it would increase its quarterly dividend on common stock to 36 cents a share from 32 cents.

First-half net income was $502.7m, or $1.80, against $446.8m, or $1.54, last time on sales of $6.3bn against $6.41bn. Last year's earnings included charges of $76.7m for accounting changes.

Microsoft improves 26% in fourth period

By Martin Dickson in New York

MICROSOFT, the leading personal computer software company, reported a 26 per cent increase in fourth-quarter net income, helped by its popular Microsoft Windows operating system.

It reported net income of $265m, or 87 cents a share, against $210m, or 71 cents, in last year's fourth quarter.

Revenues were $1.04bn – its first billion dollar quarter – against $815m a year ago.

Full-year net income rose 35 per cent to $953m, from $708m in 1992, while earnings per share totalled $3.15, against $2.41. Revenues rose 36 per cent to $3.75bn, from $2.76bn.

Mr Mike Brown, vice-president of finance, noted that net income equalled 25.4 per cent of revenues in fiscal 1993.

Mr Bill Gates, chairman, said: "Throughout the year the adoption of the Microsoft Windows operating system worldwide has been a major part of our success. Microsoft has distributed more than 30m copies of Windows and continues to distribute more than 1m copies a month."

He said the company was making long-term investments in technologies ,including software for office machines and personal home devices.

Sun Microsystems beats predictions in final term

By Richard Waters in New York

SUN Microsystems, the US computer group, exceeded market expectations with net income in the fourth quarter to the end of June more than double the level of a year ago. It warned, however, that recession in Europe would harm results for the current quarter.

Net income for the quarter rose to $76.1m, or 72 cents a share, from $37.7m, or 37 cents a year ago. Turnover climbed 30 per cent to $1.26bn, during the quarter, from $972m a year earlier.

The system software company sold 140,000 software product licences, while Sun Microsystems Computer shipped a record 71,000 computer systems and 92,000 processors.

For the financial year, net income slipped to $156.7m from $173.3m on turnover of $4.3bn up from $3.6bn.

Dow Jones buys stake in Asian satellite channel

DOW JONES, the US media group, is taking a 29.5 per cent stake in Asia Business News, a Singapore-based company that is launching Asia's first satellite channel covering business, financial and economic news, Reuter reports from New York.

The service will use the resources of Dow Jones, which includes the Asian Wall Street Journal and Dow Jones Telerate.

Other shareholders in Asia Business News will be Television New Zealand and Telecommunications of the US, each with 29.5 per cent, Singaporean SIM Ventures with 10 per cent and Business News Network of Hong Kong with 1.5 per cent.

ITT registers 152% jump in net income

By Patrick Harverson in New York

SHARES in ITT rose yesterday after the diversified US conglomerate reported a 152 per cent jump in second-quarter net income to $267m following improved performances from all but one of its eight main business lines.

Group sales rose slightly to $5.5bn.

The news lifted ITT's shares on the New York Stock Exchange $1⅞ to $89¼, a new 52-week high, before the close. Investors appeared untroubled by a warning from Mr Rand Araskog, ITT's chairman, that some of the group's markets would "soften" in the second half of this year.

ITT's latest results were affected by special items, including a $13m restructuring charge, a $50m provision to cover the losses on early retired debt, a $63m gain on the sale of its unsecured consumer loan business, and $25m of capital gains in the group's insurance portfolios.

Among ITT's businesses, its financial and business services group put in an especially strong performance. Operating results at the insurance unit, ITT Hartford, improved dramatically, with earnings jumping from $41m a year ago to $187m this year. This followed a drop in catastrophe losses, favourable underwriting results, higher capital gains and the absence of losses relating to its Cameron and Colby business.

Better results from its commercial lending business lifted ITT Financial's earnings 15 per cent to $75m. The only unit in the financial and business services group to report a decline in income was ITT Communications and Information Services, where foreign exchange losses led to a small drop in earnings to $66m.

In the manufactured products division, earnings at ITT Automotive jumped $20m to $54m as material and overhead costs fell. ITT Defense and Electronics also reported sharply higher income at $18m, as did ITT Fluid Technology. Both units benefited from improved cost control.

ITT Rayonier, the forest products operation, reported doubled income to $50m.

Nortel charge pushes BCE to C$520m loss

By Robert Gibbens in Montreal

BCE, Canada's biggest telecommunications group, suffered a C$520m (US$406m) loss for the second quarter, equal to C$1.77 per common share, after absorbing its share of a US$940m writedown by 52 per cent-owned Northern Telecom.

BCE's loss was in line with analysts' estimates, following last week's news from Nortel that its second-quarter loss equalled US$4.13 a share, including the writedown.

BCE recorded a second-quarter profit of C$246m, or 72 cents.

Its consolidated revenues were C$4.92bn, against C$4.98bn, mostly from Bell Canada.

BCE's first-half loss was C$299m, or C$1.13 a share, against a profit of C$544m, or C$1.60 last year.

PanCanadian Petroleum doubles first-half profit

By Robert Gibbens in Montreal

PANCANADIAN Petroleum, one of Canada's top three natural gas producers and a key affiliate of the Canadian Pacific group, doubled first-half net profit as it gained from two years of heavy investment in oil and gas production

First-half profit was C$122.5m (US$96m), or 98 cents a share, against C$58.3m, or 47 cents, a year earlier, on revenues of C$549m, against C$418m.

Second quarter per-share earnings were 49 cents against 31 cents and revenues for the quarter advanced to C$282m from C$218m.

The company said the second half would bring more gains in oil production and the outlook for gas was good with the prospect of further price rises.

INTERNATIONAL CAPITAL MARKETS

Traders stunned by Bundesbank failure to cut discount rate

By Peter John in London and Patrick Harverson in New York

THE announcement yesterday that the German central bank was not prepared to cut its key discount rate stunned the European government bond markets, which had factored in a reduction of half a percentage point.

German government bonds surged on the news, judging the move as a boost to the Bundesbank's credibility in what is increasingly being seen as a battle of wills between speculators and central banks. Bund futures for September delivery traded 35 pfennigs higher at 96.26.

GOVERNMENT BONDS

French debt prices jumped on the belief that the franc would have to either realign within the European exchange rate mechanism or decouple and cut rates independently. As the franc tumbled, the 10-year Notionnel futures contract rose 30 centimes to 120.48 and hit 120.80 in after-hours dealing. Spanish government bond futures traded in Barcelona gained half a point to 93.25.

However, Ecu bonds fell sharply, with the Ecu bond futures contract traded on the French Matif tumbling 32 basis points to 114.48.

Dealers had spent the morning gazing at their screens as they waited for the Bundesbank to make an announcement. Barely anyone was prepared to trade, and those that did found it difficult to get a price, particularly in the usually-liquid bund futures market, which saw only 12,000 contracts traded by the early afternoon.

Then, at 1.15pm GMT, the Bundesbank announced it was leaving its discount rate, which sets the floor for bank lending, unchanged at 6.75 per cent. It also said its next securities repurchase agreement rate would be fixed at the existing 6.95 per cent, a clear signal that the tight monetary policy will continue.

The only sop was a half-point cut in the upper-level Lombard rate, to 7.75 per cent.

Mr Wiltse Bailey, an economist with Banque Nationale de Paris, said reports of the death of the ERM were exaggerated. "French base rates can be held at 8.4 per cent, so the small- and medium-sized companies who have had the most problems will not be affected by the rise in overnight rates," he said.

"There may be some increase in tension and further tests on Belgium and Denmark, but the ball is in the market's court now. For the Bundesbank, there was a credibility question over giving in to market pressure following the latest data on M3 and inflation. It has refused to buckle and it is a battle of wills now."

After a meeting which lasted nearly four hours, the German central bank put out a curt press statement detailing the changes it was making. It said: "This measure . . . continues the policy of cautiously reducing interest rates."

As always, it refused to comment on the way the voting went, and said no council members were available for comment.

While the meetings are shrouded in secrecy, a few of the 16 council members have hit out at further rate cuts against the background of higher money supply growth and inflation.

Most significantly, Mr Johann Gaddum, vice-president designate of the Bundesbank, said last week that if the M3 money supply figure was outside the target range of between 4.5 and 6.5 per cent, there was no justification for a rate cut. His comments were made just before M3 for June came in at 7.1 per cent.

■ OUTSIDE the increasingly strained ERM, UK government bonds continued to soar. Gilts shrugged off any supply worries following Wednesday's £3.25bn auction of eight-year stock and ignored the potential shock wave from the Christchurch parliamentary by-election.

Gilt futures for September gained more than half a point to test record highs at 109.

■ ITALY, also outside the ERM, saw its government bond futures contract shoot 0.80 higher to 105.71.

■ AUSTRALIAN bonds reached a new high in response to the second-quarter current account deficit, which came in at the bottom of expectations.

The long end performed most strongly as inflationary pressures remain low. August 2003 T-bond yields crashed through 7 per cent to 6.90 per cent, pushing prices up by more than a percentage point.

■ AN unexpectedly weak second-quarter gross domestic product report, and a big rise in weekly jobless claims, provided a firm boost to US Treasury prices yesterday morning.

By midday, the benchmark 30-year government bond was up $\frac{15}{32}$ at $107\frac{1}{32}$, yielding 6.579 per cent. At the short end, the two-year note was also firmer, up $\frac{5}{32}$ at $100\frac{7}{32}$, to yield 4.118 per cent. Trading was heavy.

The eagerly-awaited GDP numbers delighted bond traders and investors. The 1.6 per cent rise in GDP was well below market forecasts, which had been looking for growth of 2.2 per cent. Sentiment was also buoyed by the news that the implicit price deflator, a closely-followed measure of inflation, rose only 2.6 per cent in the second quarter, compared with 3.3 per cent in the first three months of the year.

Prices, especially at the long end, rose sharply after the data was released. This was because market participants believed the unexpectedly weak second-quarter growth would definitely rule out any chance of an interest rate rise by the Federal Reserve.

Only last week, Mr Alan Greenspan, the Fed chairman, had predicted second-quarter GDP growth of at least 2 per cent, and had warned that rates might have to go up if inflation picked up too strongly.

Treasuries were also aided by a larger-than-expected 43,000 rise in weekly jobless claims, and by a report in the Washington Post that the Fed had not eliminated the possibility of a cut in interest rates.

● GREECE is raising the rate on its one-year dollar-linked drachma bond to 4.25 per cent from 4.10 per cent, Reuter reports. The rate on the three-year dollar-linked drachma bond will rise to 5.80 per cent.

FT FIXED INTEREST INDICES

	July 29	July 28	July 27	July 26	July 23	Year ago	High *	Low *
Govt Secs (UK)	98.57	98.47	97.94	98.18	97.98	88.68	98.57	93.28
Fixed Interest	118.13	117.81	117.34	117.20	117.02	105.40	118.13	108.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 118.13 (20/7/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	July 28	July 27	July 26	July 23	July 22
Gilt Edged Bargains	146.7	122.4	103.8	89.1	100.0
5-Day average	112.4	104.1	98.6	98.1	101.3

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	118.6347	+1.111	6.90	7.18	7.57
BELGIUM		9.000	03/03	113.0600	+0.180	7.08	7.11	6.99
CANADA *		7.500	12/03	102.5130	+0.782	7.15	7.24	7.31
DENMARK		8.000	05/03	106.1000	-0.250	7.11	7.18	6.84
FRANCE	BTAN	8.000	05/98	107.4390	+0.165	6.14	6.28	6.13
	OAT	8.500	04/03	112.4250	+0.360	6.71	6.78	6.72
GERMANY		6.750	04/03	101.4800	+0.260	6.53	6.54	6.62
ITALY		11.500	03/03	104.3600	+0.040	11.05†	11.19	11.46
JAPAN	No 119	4.800	06/99	104.1845	-0.002	3.93	4.01	4.20
	No 145	5.500	03/02	107.9360	-0.516	4.24	4.34	4.39
NETHERLANDS		7.000	02/03	104.3800	+0.340	6.36	6.37	6.47
SPAIN		10.300	06/02	100.5987	+0.227	10.18	10.34	10.13
UK GILTS		7.250	03/98	102-13	+2/32	6.64	6.78	6.88
		8.000	06/03	104-00	+4/32	7.42	7.50	7.66
		9.000	10/08	110-16	+7/32	7.80	7.87	8.04
US TREASURY *		6.250	02/03	103-03	+23/32	5.82	5.89	5.76
		7.125	02/23	106-27	+7/32	6.60	6.63	6.67
ECU (French Govt)		8.000	04/03	104.6500	-0.480	7.31	7.33	7.06

London closing, *denotes New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

ISMA calls for reduced period of settlement

THE International Securities Market Association has described a reduction in the Euromarket settlement period, to trade date plus two to three working days from trade date plus seven calendar days, as "both necessary and justified", Reuter reports.

ISMA said it prefered the trade date plus two days settlement option. ISMA's full board and market practices committee has been discussing the matter since its annual meeting in May, when members voiced strong support for such a move.

Cedel and Euroclear, the two clearing houses, say they foresee no technical problems with the proposed shortening of the settlement period.

ISMA said a shorter settlement period would reduce overall systemic risk, bring the Euromarket more into line with the cycle for domestic debt instruments traded internationally, and help members to meet capital adequacy requirements.

The date set for the changeover is January 1995.

NZ futures market to link with Sydney

THE New Zealand Futures & Options Exchange, acquired by Sydney Futures Exchange last year, is to link its computerised futures market with the Australian market, AP-DJ reports from Wellington.

Plans will now proceed to allow trading on New Zealand futures contracts in Australia. The link is expected to increase liquidity in local futures trading. A survey of Sydney exchange members shows that between 15 and 20 of them planned to link with the New Zealand exchange.

Mr Les Hosking, chief executive of the Sydney exchange, said extra liquidity from Australia and further afield would help the New Zealand financial market use futures and options on futures to manage risk.

Investors seek sterling safe haven from ERM storm

By Sara Webb

STERLING-denominated new issues provided the main focus in the international bond market yesterday, with investors scrambling for sterling assets against a backdrop of continued turmoil in the European exchange rate mechanism.

INTERNATIONAL BONDS

The Bundesbank's decision to cut only its Lombard rate by half a point, while leaving the discount rate unchanged, sparked further turbulence in the foreign exchange markets. Sterling, which remains outside the ERM, attracted interest from investors because of its perceived "safe haven" status at such times.

SBG, or Schweizerische Bankgesellschaft (Deutschland), the wholly-owned German subsidiary of UBS, launched an unusual structured deal with a total price tag of £259.25m.

SBG is issuing a series of 27 different zero coupon notes, with maturities staggered at six-monthly intervals from September 30 1993 to the final series (No 27) maturing on March 31 2006. The first 26 note issues are for £6.125m with a final, 27th, note of £100m.

UBS, lead manager, said it chose this structure in response to strong investor demand for sterling-denominated zero coupon instruments. "There's good demand for sterling assets from continental investors because of the currency play, and zero coupon bonds provide them with a leveraged play," it said. The bonds also held tax advantages for certain investors.

The zero coupon bonds are backed by semi-annual coupon payments from SBG's holding of a £100m issue of BT bonds, which have a 12.25 per cent coupon and mature in 2006.

"This is basically a way of creating zero coupon bonds off the back of a normal coupon bond as the cash-flow from the BT bond interest payments received by SBG will be used to pay off the zero coupon bond," said a senior official at UBS. UBS originally bought £229m of BT debt, selling part and retaining £100m to do a structured transaction.

The other sterling deal of the day was a £56.25m convertible issue by Witan, the largest investment trust managed by Henderson Touche Remnant. The bonds can be converted into a basket of shares in three separate investment trusts managed by Henderson, and in which Witan has shareholdings.

Baring Brothers, book-runner for the deal, said the convertible bond route provided a tax-efficient way for Witan to sell its shares in the three investment trusts.

The bonds were launched at par and were quoted at between 100 (bid) and 100.5 (offered) by late afternoon. Baring Brothers said the bonds were bought mainly by private client fund managers, as well as institutional fund managers in the UK and Europe.

Meanwhile, Skopbank, the central bank for Finland's savings bank group, launched a $100m floating-rate note with the coupon set at six-month Libor plus 50 basis points, giving investors an overall yield of Libor plus 61 basis points.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Skopbank‡	100	(a)	99.7R	Aug.1996	0.25R	-	Goldman Sachs Intl.
Banestado	50	10#	100R	Feb.1996	1.25R	+570 (b)	Paribas Capital Markets
STERLING							
SBG (Deutsch.)(c)	259.25	zero	-	(c)	-	-	UBS
Witan Investment Co.(d)§	56.25	6.25#	100	Sep.2008	2.5	-	Baring Brothers & Co.
SWISS FRANCS							
De Nationale Investeringsbank	100	4.375	102	Aug.1998	-	-	Banca del Gottardo

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Coupon pays 6-month Libor + 0.5%. b) Spread is over the interpolated yield curve. c) Backed by £100m holding of BT 12.25% bonds due 2006. Each cash flow from the BT bonds - 26 flows of £6.125m paid semi-annually and £100m redemption proceeds - relates to a separate series of zero coupon bonds. d) Exchangeable into basket of investment trust shares. Callable at par from 20/10/98 or earlier if 80% of bonds are converted.

HK securities firm enters Shanghai SE

CROSBY Securities (HK) has purchased, along with its Chinese associate, a seat on the Shanghai stock exchange, AP-DJ reports from Hong Kong.

The purchase follows recent moves by the exchange to widen the participation of foreign brokers. Crosby will own the seat along with its local partner, Guotai Securities.

Crosby said its purchase of a seat on the Shanghai market was a logical extension of its China business, which includes offices in Beijing and Shanghai.

"We believe that China's equity markets will become some of the biggest in the region over the next five years," said Crosby's director responsible for China.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7.00 pm on July 29

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN $9\frac{1}{8}$ 94	200	$104\frac{3}{4}$	$105\frac{1}{8}$	$+\frac{1}{8}$	4.20
AlbertaProvince $9\frac{3}{8}$ 95	600	$109\frac{5}{8}$	110	$+\frac{1}{8}$	4.73
Austria $8\frac{1}{2}$ 00	400	$113\frac{7}{8}$	$114\frac{1}{4}$	$+\frac{3}{8}$	5.86

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
Arbed $7\frac{1}{2}$ 95 LFr	600	100	101		7.49
Genfinance Lux $9\frac{1}{8}$ 99 LFr	1000	$108\frac{5}{8}$	$110\frac{1}{2}$		7.26
World Bank 8 96 LFr	1000	$102\frac{1}{4}$	$103\frac{1}{4}$		7.04

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	67	5	8
Other Fixed Interest	12	3	0
Commercial, Industrial	370	193	850
Financial & Property	332	53	419
Oil & Gas	19	18	46
Plantations	1	0	7
Mines	58	20	57
Others	46	50	42
Totals	905	342	1,429

LONDON RECENT ISSUES

EQUITIES

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price p	+ or -
123	Nil	27/8	44pm	33pm	ACT	44pm	+1
60	Nil	6/8	3pm	$\frac{3}{4}$pm	Alexon	$\frac{3}{4}$pm	
5	Nil	25/8	$\frac{3}{4}$pm	$\frac{1}{4}$pm	Alliance Res.	$\frac{3}{4}$pm	
140	Nil	25/8	94pm	82pm	Bank of Ireland	85pm	-4
135	Nil	3/9	19pm	14pm	Birkby	14pm	-1
500	Nil	6/9	100pm	80pm	Clyde Blowers	98pm	
152	Nil	23/8	18pm	5pm	Cranswick	17pm	+2
345	Nil	1/9	62pm	33pm	Frogmore	62pm	+5
19	Nil	8/9	3pm	$1\frac{1}{4}$pm	Marling	$1\frac{3}{4}$pm	
5	Nil	9/8	$1\frac{1}{2}$pm	$\frac{3}{4}$pm	Premier Land	$\frac{3}{4}$pm	$-\frac{1}{4}$
120	Nil	16/8	35pm	28pm	Rubicon	33pm	-2
210	Nil	1/9	53pm	42pm	Smith New Court	42pm	-2

pm Price at a premium. † Price offered to public.
For other notes please refer to the Guide to the London Share Service.

TRADITIONAL OPTIONS

● First Dealings July 26
● Last Dealings Aug. 6
● Last Declarations Oct. 28
● For settlement Nov. 8

3-month call rate indications are shown in Saturday editions.

Calls: Aminex, Amstrad, Avesco, Aviva Pet., Com-Tek, Denistron, Essex Furniture, FNFC, Hanson Wts., Ivernia West, Misys, Shoprite, Spring Ram, Tullow Oil and Yorkshire Water. Puts: Avesco, Essex Furniture, IBC, Misys and Shoprite. Puts & Calls: Ferranti and Tullow Oil.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

Option		Oct	Feb	May	Oct	Feb	May
Grand Met (*418)	390	43	52	58	$7\frac{1}{2}$	18	$21\frac{1}{2}$
	420	$24\frac{1}{2}$	$35\frac{1}{2}$	42	$19\frac{1}{2}$	32	35
Ladbroke (*185)	180	$13\frac{1}{2}$	$18\frac{1}{2}$	21	13	$17\frac{1}{2}$	$23\frac{1}{2}$
	200	$5\frac{1}{2}$	11	13	$27\frac{1}{2}$	$30\frac{1}{2}$	$36\frac{1}{2}$
Utd Biscuits (*388)	360	$26\frac{1}{2}$	$35\frac{1}{2}$	$40\frac{1}{2}$	$16\frac{1}{2}$	24	$31\frac{1}{2}$
	390	$12\frac{1}{2}$	$23\frac{1}{2}$	27	$34\frac{1}{2}$	$41\frac{1}{2}$	$48\frac{1}{2}$

Option		Oct	Dec	Mar	Oct	Dec	Mar
Fisons (*169)	160	$19\frac{1}{2}$	23	$26\frac{1}{2}$	8	$10\frac{1}{2}$	16
	180	10	13	$17\frac{1}{2}$	19	$24\frac{1}{2}$	$27\frac{1}{2}$

Option		Sep	Dec	Mar	Sep	Dec	Mar
Abbey Natl (*392)	390	$12\frac{1}{2}$	25	$31\frac{1}{2}$	$13\frac{1}{2}$	$19\frac{1}{2}$	27
	420	$3\frac{1}{2}$	$12\frac{1}{2}$	$18\frac{1}{2}$	38	$39\frac{1}{2}$	$45\frac{1}{2}$
Amstrad (*34)	30	$5\frac{1}{2}$	7	$7\frac{1}{2}$	$1\frac{1}{2}$	$2\frac{1}{2}$	3
	35	$2\frac{1}{2}$	$4\frac{1}{2}$	5	$3\frac{1}{2}$	5	$5\frac{1}{2}$
Barclays (*486)	460	34	$47\frac{1}{2}$	$55\frac{1}{2}$	8	16	23
	500	11	26	$34\frac{1}{2}$	$28\frac{1}{2}$	36	$43\frac{1}{2}$
Blue Circle (*263)	260	15	$23\frac{1}{2}$	30	9	$18\frac{1}{2}$	$22\frac{1}{2}$
	280	$6\frac{1}{2}$	15	$21\frac{1}{2}$	22	31	34
British Gas (*307)	300	17	21	27	$6\frac{1}{2}$	$13\frac{1}{2}$	$17\frac{1}{2}$
	330	4	8	$13\frac{1}{2}$	25	33	$35\frac{1}{2}$
Dixons (*210)	200	15	$27\frac{1}{2}$	33	6	11	$15\frac{1}{2}$
	220	8	$17\frac{1}{2}$	$22\frac{1}{2}$	16	$21\frac{1}{2}$	$25\frac{1}{2}$

FT-SE INDEX (*2915)

	2750	2800	2850	2900	2950	3000	3050	3100
CALLS								
Aug	177	129	84	48	21	8	3	$1\frac{1}{2}$
Sep	188	145	105	71	44	25	13	7
Oct	-	-	-	85	-	38	29	-
Nov	-	-	-	109	-	-	-	-
Dec †	-	188	-	115	-	73	-	-
PUTS								
Aug	4	6	12	26	54	91	141	191
Sep	11	17	28	44	70	105	142	191
Oct	-	28	50	60	97	-	-	-
Dec †	-	55	-	100	-	-	-	-

July 29 Total Contracts 36,010
Calls 18,827 Puts 17,183
FT-SE Index Calls 3,499 Puts 4,594
Euro FT-SE Calls 1,137 Puts 763
*Underlying security price. † Long dated expiry mths.
Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

	PRICE INDICES	Thu Jul 29	Day's change %	Wed Jul 28	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (25)	127.75	+0.12	127.59	1.12	7.35
2	5-15 years (23)	150.87	+0.22	150.53	1.89	8.07
3	Over 15 years (9)	165.80	+0.29	165.31	1.41	7.18
4	Irredeemables (6)	190.01	+0.16	189.71	2.37	7.35
5	All stocks (63)	146.82	+0.21	146.52	1.46	7.75
	Index-Linked					
6	Up to 5 years (2)	186.78	+0.20	186.40	1.56	1.92
7	Over 5 years (11)	177.70	+0.27	177.22	0.53	3.20
8	All stocks (13)	177.81	+0.26	177.35	0.65	3.05
9	Debs & Loans (65)	136.27	+0.23	135.96	2.94	5.75

	AVERAGE GROSS REDEMPTION YIELDS		Thu Jul 29	Wed Jul 28	Year ago (approx.)
	British Government				
1	Low	5 years	6.70	6.75	8.50
2	Coupons	15 years	7.68	7.72	8.86
3	(0%-7¾%)	20 years	7.83	7.85	8.86
4	Medium	5 years	6.86	6.92	9.38
5	Coupons	15 years	7.80	7.83	9.06
6	(8%-10¾%)	20 years	7.88	7.91	8.99
7	High	5 years	7.08	7.12	9.61
8	Coupons	15 years	8.05	8.09	9.27
9	(11%-)	20 years	8.08	8.11	9.17
10	Irredeemables(Flat Yield)		7.99	8.00	9.09
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	2.79	2.84	4.23
12	Inflation rate 5%	Over 5 yrs.	3.41	3.43	4.51
13	Inflation rate 10%	Up to 5 yrs.	2.08	2.08	3.49
14	Inflation rate 10%	Over 5 yrs.	3.23	3.24	4.33
15	Debs &	5 years	8.46	8.50	10.61
16	Loans	15 years	8.75	8.78	10.35
17		25 years	8.89	8.92	10.21

Preparing to go their separate ways (left to right): Ronnie Hampel, Sir Denys Henderson and David Barnes after announcing the first sets of results following the demerger

Trevor Humphries

ICI falls to £364m and 5,000 more jobs to go

By Paul Abrahams

ICI yesterday reported pre-tax profits for the six months to June 30 down from £420m to £364m. Sales increased from £6.15bn to £6.34bn.

The figures include a five-month contribution from Zeneca and six months from the nylon operations that have been sold to Du Pont of the US.

Trading profits from continuing operations rose from £149m to £180m. Turnover rose 9 per cent to £4.17bn (£3.82bn).

Mr Ronnie Hampel, chief executive, said he viewed the performance of his continuing businesses as solid.

"I think that our profitability relative to our competitors on the Continent is quite good. But in absolute terms it is not good enough."

Favourable currency rates added £50m to the results. A further £50m was added through the restructuring.

Earnings for continuing business before exceptional items were 12.4p (11.2p). The interim dividend is 10.5p. ICI's shares advanced 16p to 666p.

Zeneca, during its last five months within ICI, contributed £329m (£326m). Fibres suffered a £21m loss, compared with a profit of £13m. Total trading profit was £488m (£473m).

Loan repayments from Zeneca allowed ICI to cut gearing from 33.4 per cent to 23 per cent, according to Mr Colin Short, finance director.

Mr Hampel said that since the end of 1990, staff numbers had been cut by 22,000 and a further 5,000 would follow, not including the 5,000 who transferred to Du Pont.

Sir Denys Henderson, chairman, said: "The outlook continues to be uncertain in almost all the markets in which we operate, with the possible exception of the Asia Pacific area."

The industrial chemicals business lifted operating profits to £60m (£32m) on turnover up from £1.77bn to £1.89bn.

The paints division reported trading profits of £50m (£61m) on sales of £856m (£814m). Weak demand in Europe and the US was offset by buoyant demand in Asia. Mr Hampel said a cash payment of £25m had been made to Lilly Industries when ICI had swapped its packaging coatings business for Lilly's industrial coatings operations.

Materials raised operating profits by £2m to £13m on turnover up from £656m to £743m.

Trading profits at the explosives division fell to £20m (£24m) on sales of £318m (284m). Regional businesses raised profits to £29m (£15m) on sales of £690m (£664m).

Pharmaceuticals division behind growth at Zeneca

MR DAVID BARNES, Zeneca's chief executive, yesterday said his greatest priority was to drive the pharmaceuticals division as hard as he could, writes Paul Abrahams.

The division, the company's largest and most profitable, gave all the signs of being successfully driven yesterday.

Most surprising was the increase in sales of Zestril, the ace-inhibitor used to treat heart disease, which rose 64 per cent from £127m to £208m. Underlying growth, excluding exchange rates, was an impressive 44 per cent, although prices fell 1 per cent. Mr John Mayo, finance director, said Zestril had benefited from the switching of much of the US sales force from Tenormin, where patents have expired.

However, the benefits of Zeneca's recent emphasis on the managed care market in the US – the company now has about 40 key account managers dedicated to the sector – had also helped. It had been able to differentiate the once a day Zestril treatment from other drugs in the over-crowded ace-inhibitor market.

Zeneca's position in the hospital market appeared to be paying dividends. Sales of Zoladex, a cancer treatment, rose 43 per cent from £49m to £70m. Underlying sales increased 31 per cent, though prices fell 2 per cent. Nolvadex, another cancer treatment, generated sales up 49 per cent to £175m. Growth, excluding exchange rates, was a creditable 26 per cent.

Diprivan, an anaesthetic, generated sales up 42 per cent from £67m to £95m. Underlying growth was 25 per cent, including a 5 per cent sales increase.

Healthcare reforms hit Zeneca's sales in Germany where they dropped 4 per cent, from £49m to £47m. The combined fall in volumes and prices was 18 per cent, compared with 21 per cent for the whole market.

The agrochemical division increased its sales of herbicides by 15 per cent from £366m to £421m, although volume growth was only 1 per cent. Insecticides turnover was up 12 per cent from £138m to £155m, although volumes were static. Fungicide sales fell 2 per cent, from £91m to £89m, while underlying volumes fell 11 per cent. Sales of seeds increased 11 per cent to £99m, although volumes were down 3 per cent.

Although the specialities division raised sales by 8 per cent to £519m, underlying growth was static. The textile colours and dyestuffs sector suffered most from the recession. Sales of biological products, such as Quorn, increased 9 per cent, from £11m to £12m.

Harrisons & Crosfield turns in 19% advance

By Peggy Hollinger

THE BENEFITS of a wide-ranging cost cutting programme appear to be feeding through to the bottom line at Harrisons & Crosfield, the agribusiness, chemicals and plantations group which yesterday reported a 19 per cent increase to £48.4m in first half profits.

The group, which lifted sales by 24 per cent to £1.1bn, also announced the retirement of Mr John Maltby, chairman, who will step down in May. He will be replaced by Mr George Paul, chief executive. Mr Bill Turcan, finance director, steps up into the chief executive post.

A disappointing performance from the BOCM Pauls animal foods business, acquired in April last year, held back growth in the agriculture and foods division. Nevertheless, this business still increased operating profits by 30 per cent to £19m on sales ahead 85 per cent to £373m.

Mr Paul said BOCM Pauls had suffered a sharp decline in margins in spite of considerable cost savings. The group's failure to secure lower raw materials prices at the time of sterling's devaluation last year had had a significantly adverse effect in the first quarter, he said. However, margins were now beginning to recover.

The chemicals division raised profits from £17.2m to £20.7m, on the back of large cost savings in the pigments division. The group closed four of its six factories in the US.

Timber and building supplies returned a 4 per cent increase to £11.5m. This masked a sharp rise in the builders' merchant business in the UK, where rationalisation resulted in a 20 per cent increase in profits.

The plantations division enjoyed one of its most successful years with a 46 per cent rise in profits to £12.4m.

Earnings per share rose by 0.3p to 4p, and the interim dividend is maintained at 3.6p.

● **COMMENT**

Harrisons has enjoyed some success with its restructuring, and promises yet more in the chemicals and animal feeds divisions. However, animal feeds is regarded as a mature market with heavy competition becoming the main feature, while chemicals is increasingly exposed to the depressed continental European market. On the brighter side, economic recovery is bound to do a world of good for all divisions, especially building supplies. The main attraction of this stock, however, seems to be the yield. At 6 per cent, this is tempting when all talk is of another base rate cut. Forecasts are for £105m this year, for a prospective p/e of 21. Although not a sell, one wonders just how much higher the shares can go in the short term under the circumstances.

ADT raising $144m to help refinance debt

By Andrew Bolger

ADT, the Bermuda-based security services and car auction company, is raising $144m via a public offer in the US of 18m shares at $8 apiece. The shares rose $¼ to $8¼.

The proceeds will help ADT refinance $1.3bn of debt and meet preference share obligations. First Boston Corporation and Merrill Lynch are managing underwriters for the public offering. After the refinancing, ADT's gearing will still be more than 100 per cent.

ADT also confirmed the rescheduling of $600m of debt through a public offering of $250m of 8.25 per cent senior notes 2000 and $350m of 9.25 per cent notes 2003. Merrill Lynch and First Boston were also managing underwriters for the offerings.

In addition, ADT has syndicated with a group of US and international banks a six-year $500m credit facility, subject to final documentation. This transaction was arranged by Chemical Bank and Bank of Nova Scotia and will become effective simultaneously with the closing of the equity and public debt offerings.

ADT said it would use the proceeds of the public offerings, together with cash on hand, to repay all indebtedness outstanding under ADT's two principal existing credit facilities.

Lex Service accelerates 33%

By Paul Taylor

A LARGER share of more buoyant markets helped Lex Service, the UK's largest car distribution and leasing company, report interim profits up by 33 per cent yesterday. Sir Trevor Chinn, chairman, forecast "considerably higher" new car registrations this year.

Profit before tax and exceptional items increased from £16m to £21.2m in the six months to June 27 reflecting improving demand in the car and truck markets.

After exceptional items – including disposal of the Volvo import concession in 1992 which resulted in a £63.7m exceptional gain and the sale of Arrow Electronics shares in the latest period which generated a £60.1m exceptional gain – the group showed pre-tax profits under the new FRS 3 accounting rules of £81.6m (£84.9m).

Earnings per share excluding the exceptional items increased from 10.5p to 13.3p and the interin dividend is lifted from 4p to 4.7p. Including exceptionals earnings slipped to 74.8p (78.5p) per share.

Profits in the latest period also included a non-recurring £2.6m for the period October to December reflecting the decision of the group's contract hire joint ventures to change their accounting year end.

Excluding this, and adjusting for the loss of the Volvo import concession, pre-tax profit before exceptionals rose 36 per cent to £18.6m.

Sir Trevor said group car dealerships throughout Britain were reporting "a very encouraging level of orders for August," traditionally the busiest month of the year for new car registrations.

He said total August registrations could be up by over 10 per cent on last August.

● **COMMENT**

With yesterday's acquisition of the Arlington dealerships Lex has consolidated its position as UK's largest car retailing group. Meanwhile, the Hyundai concession, while tiny in comparison to Volvo, gives Lex a foothold back in the import business. Overall, however, it is new car sales which drive the business – since they generate after sales revenues and second-hand car sales. If the optimism on this score proves correct the timing of Lex's latest acquisition will look sweet. Pre-tax profits this year, excluding the exceptionals, should reach between £37m and £40m, equivalent to minimum earnings of 25p a share. On that basis the shares are trading on a prospective p/e of 16.7.

LMS net assets fall by 17%

By Catherine Milton

THE continuing fall in property prices cut net assets per share of London Merchant Securities, the property developer and invester, by 17 per cent from 99p to 81p in the 12 months to March 31.

Pre-tax profits, however, improved from £24m to £25.6m.

The drop in net assets followed a 9 per cent decline in the previous year. LMS said the market value of its listed investments, notably First Leisure, and trading property was more than £50m higher than the book value.

Lord Rayne, chairman, said: "Space available in the company's new buildings is now being taken up and active interest is being shown in all of them." But rental levels remained depressed.

Net rental income from investment properties reached £29.5m (£28.9m). Other income, mainly bank interest on the cash deposits partly created by the sale of shares in First Leisure in the previous period, amounted to £13.1m (£6.1m).

Interest payable was £17.6m (£14.8m). Total debt stood at £188m (£160m), but with cash of £124m (£103m) net gearing was 24 per cent.

The proposed final dividend of 3.2p (3p) makes a total of 4p (3.8p) from earnings of 6.39p (6.54p).

Unitech down to £10m in poor Japanese trading

By Catherine Milton

PRE-TAX profits at Unitech, the electronic components maker, fell from £14m to £10.5m in the 12 months to May 31, hit by poor Japanese trading conditions for the second successive year.

The shares rose by 10p to 258p as a strong market rewarded the proposal to raise the final dividend to 4p (3.75p), making 6.1p (5.85p) for the year.

Earnings per share were 7.3p (13.2p).

The 1992 comparisons have been restated under FRS 3.

Pre-tax profits, which suffered a net non-recurring loss of £103,000 but were flattered by a £600,000 gain on exchange rates, were struck on reduced turnover of £252.9m (£253.5m).

Mr Peter Curry, chairman, said profits of the Japanese subsidiary declined 49 per cent to £3.6m.

Operating profits dropped to £13.7m (£17m).

Net interest payable fell to £4.51m (£5.14m). Net debt was £62.3m (£40.9m), giving gearing of 58 per cent (43 per cent).

● **COMMENT**

FOR all of management's clever attempts to broaden its market, as a quasi-commodity business serving the global power supplies market, Unitech should be a Cinderella stock. Fortunately for shareholders it has a listed Japanese Prince Charming in Nemic-Lambda. This handsome business is currently attracting interest because its recently difficult market seems to be recovering. Unitech's stake alone could be worth as much as the whole company, giving a gross asset value per share of about 430p, compared with yesterday's closing price of 258p. With corporate unbundling all the rage, the shares are likely to trade on these calculations rather than a pre-tax profit forecast of £15m and a prospective multiple in the high-20s.

Allied Radio losses jump

ALLIED Radio is considering a reconstruction of the balance sheet including the conversion of loan stock and eliminating the negative balance on the profit and loss account.

The company, which provides local services in Surrey, Sussex and Hampshire, reported pre-tax losses of £1.17m (£585,000) for the six months to March 31. Turnover was £2.25m (£2.17m) of which £745,000 (£650,000) related to discontinued activities.

The operating loss for continuing activities increased to £671,000 (£217,000) but the company said that the figure included non-recurring costs.

Losses per share were 2.52p (1.39p).

Villiers makes £5m rights

VILLIERS Group, formerly Caspen Oil, is to raise £5.04m net via a rights issue in order to develop existing engineering interests and to acquire small engineering companies.

The issue, fully underwritten by Marshall Securities, is of 50.4m new shares at 10½p each on a 1-for-1 basis.

It will eliminate net debt, while in the short term part of the proceeds will be used to support the reorganisation of borrowings related to the oil business.

USM-quoted Villiers recently announced a pre-tax loss of £1.15m (£6,000 profit) for the six months to January 31, struck after exceptional charges of £1.1m (£169,000 credits).

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
AB Consulting	fin	0.7	Oct 8	2.1	1	4.3
Dale Electric	fin	3.1	Oct 7	3.1	5.1	5.1
Derby Trust	int	6.2883	Aug 31	8.2295	-	16.639
Drayton Far East	int	0.125	Sept 6	0.125	-	0.625
Fairway §	int	1.1	Oct 1	1	-	3.15
Freeman §	int	2	Sep 7	2	-	5
Harrisons & Cros	int	3.6	Dec 13	3.6	-	9
ICI	int	10.5	Oct 4	10.5	-	27.5
Kleinwort High	fin	1.875	Oct 4	1.875	7.5	7.5
Lex Service	int	4.7	Sept 8	4	-	10.6
London Merchant	fin	3.2	Oct 2	3	4	3.8
Misys	fin	4.4	Oct 10	3.83	7.01†	6.1
Ransom (William)	fin	1.378	Oct 1	1.245	1.903	1.77
Saville Gordon	fin	1.7	Oct 29	1.7	2.2	2.2
Unitech	fin	4	Oct 1	3.75	6.1	5.85
Zeneca	int	10.5	Nov 8	-	-	-

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

COMPANY NEWS: UK

John Gunn returns to the corporate fray

By Andrew Bolger

A DEAL announced yesterday features Mr John Gunn, former chief executive of British and Commonwealth Holdings, the financial services group that collapsed two years ago.

It also provides a UK vehicle for the media interests of Mr Clive Ng, the Malaysian entrepreneur who has large cable television interests in Asia through United International Holdings.

The USM-quoted Wilton Group has agreed to sell a 35.6 per cent stake in its main quoted subsidiary, Glenchewton, formerly Cowan de Groot, to a group of investors which includes Mr Gunn.

He will be joined on the board of Glenchewton by two former colleagues - Mr Matt McBride, who will become chief executive, and Mr Allan Jonnes , who will be finance director.

Mr McBride is a former founder director of Bricom Group, the industrial conglomerate which was the subject of a £359m buy-out from British & Commonwealth Holdings in 1988, and Mr Jonnes is the former chief executive of Bricom.

Glenchewton currently imports and distributes toys, household goods and basketware. Mr McBride said the company was unlikely to move towards the financial services area, in which Mr Gunn made his name, and would be more interested in manufacturing and business-to-business services.

Another investor, Sir Victor Garland, a director of Throgmorton Trust and former director of Prudential Corporation, will become non-executive chairman of Glenchewton.

Wilton, which owned 69.9 per cent of Glenchewton, has agreed to sell 9m shares - representing 35.6 per cent of the equity - at 19p per share for a total consideration of £1.9m. Glenchewton shares closed 2½p higher at 33½p.

Mr Ng will take a maximum 28.48 per cent stake in Wilton. He will subscribe for 100m new shares at 1p and participate in a 1-for-2 rights issue at the same price which will raise £3.5m before expenses. He has also been granted an option over another 60m shares at 2p. Wilton shares yesterday closed ¼p lower at 1¼p.

Wilton said that in recognition of Mr Ng's substantial investment, he would join the board as an executive director and deputy chairman.

Mr Michael Buckley, Wilton's chairman, said the group was interested in areas such as cable television and he expected that the involvement of Mr Ng would bring opportunities for Wilton to expand into media businesses worldwide.

The combined proceeds from the rights issue will eliminate indebtedness at Wilton, which has now sold most of its former property portfolio.

The group incurred a pre-tax loss of £810,000 in 1992, compared with a profit of £39,000 the previous year. Sales rose from £19.2m to £30.1m. Losses per share were 0.17p (0.002p). Once again, there was no dividend.

John Gunn: will be joined by two former colleagues

All-round growth lifts Misys 66%

By Paul Taylor

MISYS, the computer services group, yesterday reported a 66 per cent increase in annual profits, reflecting strong organic growth and a good performance by acquired businesses.

Pre-tax profits in the year to May 31 advanced from £9.1m to £15.1m, struck after a £1.19m provision for proposed reorganisation and other costs, principally within the open systems and computer services divisions.

Earnings per share improved by 54 per cent to 27.4p (17.8p); a proposed final dividend of 4.4p brings the total for the year to 7.01p (6.1p).

Turnover expanded by 30 per cent to £88.8m (£68m) including £14.8m from acquisitions. Hardware revenues, as expected, continued to fall but software sales increased by 41 per cent. The acquisition of the Countrywide companies in June last year added to the underlying growth in service revenues, which jumped 38 per cent.

Software products and support services now account for 74 per cent of group revenues, up from 70 per cent a year ago. Mr Kevin Lomax, chairman, noted that this improvement in the mix of revenues has resulted in a useful rise in gross margins.

A particularly strong performance by the financial services division helped boost group operating profits to £14.7m (£8.87m) including £4.09m from acquisitions. The improvement in operating profits of businesses owned throughout the whole of the past two years, excluding the reorganisation provision, accounted for just over half the total increase for the group over the previous year.

The organic growth in profits mainly reflected growth in market share for software products and services which, Mr Lomax said, had continued to improve their competitive positions. Order books in these businesses and in the group as a whole ended the year at record levels.

The group continued to maintain firm control over working capital and ended the year with cash balances of £21m (£10m). This was after spending about £2.9m on acquisitions which, aside from Countrywide, included Specialist, Innsite and CMS.

● COMMENT

With £21m of cash in the bank Misys has considerable financial flexibility and remains on the lookout for possible UK and international acquisitions. However, recent results have been underpinned by solid organic growth, although the financial services division in particular has been strengthened considerably by the Countrywide companies, which outperformed expectations. Despite lower hardware sales the steady growth of higher margin software and service revenues bodes well for the future, as does the continued heavy emphasis on the development and enhancement of its product range. Last year R&D spending grew by more than 30 per cent. Yesterday the share price gained another 11p to 518p, and analysts were upgrading their forecasts. With projected pre-tax profits of £18.6m and earnings of 32.3p this year, the shares are trading on a prospective p/e of 16 and still rate as a buy.

NEWS DIGEST

Further loss for Abbey Panels

ABBEY PANELS Investments, an engineer supplying the motor, aerospace and defence industries, saw its shares fall 25p to 233p as it reported further losses and said there was little sign of improvement in the near future.

The company reported a reduced pre-tax loss of £993,000 (£1.18m) for the six months to March 31 on sales of £6.66m (£5.51m). Deficit per share came to 48.4p (49.8p).

It had suffered significant cuts by large customers and had recently made 60 employees redundant at a cost of about £150,000.

The directors said that costs were being cut to the bone and all opportunities were being aggressively pursued, but it would be some time before Abbey returned to profit.

AB Consulting

AB Consulting, which provides services to the construction and engineering industries, reported pre-tax losses of £1.15m for the year to April 30, against profits of £41,000.

The company said, however, that losses in the second half were reduced to £303,000, including a provision for bad debts of £165,000, after losses of £849,000 in the first six months.

Net turnover fell slightly to £11m (£11.1m) but there was an underlying fall of 17 per cent as the previous year included only six months of Brian Ford Partnership.

Losses per share came out at 6.1p, against earnings of 0.3p. The proposed final dividend is cut to 0.7p for a 1p (4.3p) total.

Fairway

Fairway Group, the USM-quoted stationery and educational supplies distributor, reported pre-tax profits ahead 63 per cent to £1.07m for the half year to June 30.

The improvement was achieved on turnover up from £14m to £20.1m. However, the company said the results were not comparable with those of 1992, primarily because of the inclusion of Spectrum Marketing and Quickbond.

Earnings came out at 2.38p (1.49p) per share. The interim dividend is raised to 1.1p (1p). The shares closed up 2p at 68p.

William Ransom

William Ransom, the pharmaceutical products maker, lifted pre-tax profits by 21 per cent from £677,000 to £817,000 in the 12 months to March 31.

Turnover improved to £7.2m (£6.91m). After tax of £274,000 (£208,000) earnings per share came through at 3.49p (3.04p). The proposed final dividend of 1.378p (1.245p) lifts the total from 1.77p to 1.903p.

Derby Trust

The split capital Derby Trust reported a net asset value of 421p per capital share as at June 30, an advance of some 10 per cent since the beginning of the year and representing a year-on-year increase of 24 per cent.

Net revenue for the six months to end-June dropped 24 per cent, from £971,480 to £742,648, for earnings of 6.2883p (8.2295p) per share; the trust makes a full distribution of earnings to shareholders.

The directors forecast a total dividend of not less than 14.25p for the current year.

Celtic International

Celtic International, a small Irish general insurer, is to become part of Eureko, an alliance of four European companies.

AVCB of the Netherlands (32 per cent), Friends Provident (31 per cent), Topdanmark of Denmark (14 per cent) and WASA of Sweden (23 per cent), formed the alliance in 1992. Eureko is currently represented in 10 European countries.

Eureko has acquired the entire share capital of Galway-based Celtic. Friends Provident's Irish subsidiary will also be transferred to Eureko. Celtic reported pre-tax profits of £1.1m in 1992.

Mitie

With all areas of activity increasing both turnover and customer base, Mitie, the building services group, was able to record an improvement in annual pre-tax profits from £1.81m to £2.4m.

Turnover of continuing operations rose from £52.3m to £73m over the year to March 31.

Earnings advanced to 13.3p (11.6p) and a final dividend of 2p makes a 3.5p (2.75p) total.

Grosvenor Inns

Grosvenor Inns, the pub operator, returned pre-tax profits of £764,000 for the year to May 31.

The Hertfordshire-based company, which now operates 27 pubs, including the Slug & Lettuce chain, joined the USM in May 1992. For the opening six months to end-November 1992 it achieved pre-tax profits of £319,000.

Turnover totalled £8.1m. Earnings emerged at 7.4p and a final dividend of 2.25p makes a 4.25p total.

J&J Dyson

A fall in pre-tax profits from £1.13m to £1.05m was announced by J&J Dyson for the year to March 31 after exceptional rationalisation costs of £140,808, against £186,541.

Turnover for the Sheffield-based group was reduced to £42.6m (£49.5m). Losses of £10,643 were incurred in the vehicles and trailers division, against profits of £93,237, while profits from refractories fell to £837,783 (£913,138). However, an improved contribution of £183,677 (£126,646) was made by builders' merchanting.

The final dividend is held at 3p for an unchanged total of 5p. Earnings were 5.76p (6.54p).

Corporate Services

Corporate Services returned to profit in the six months to June 30 with £32,000 before tax, which the USM-traded company attributed to its efforts to integrate individual companies into a cohesive employment services group.

The previous first half bore a loss of £466,000 and that year recorded a £1.55m deficit.

Turnover from continuing operations rose 23 per cent to £16.1m (£13.1m) and operating profit of £162,000 compared with a £185,000 deficit.

Clayhithe

Clayhithe, the investment company, achieved profits of £724,000 in the back half of the year to March 31, which enabled it to partly offset the first-half loss and report a reduced deficit of £366,000 for the year. The previous year's loss amounted to £963,000.

The dividend is maintained at 2.5p via an unchanged final of 1.75p.

Sidney C Banks

Integration of acquisitions and reduced interest rates helped Sidney C Banks, the grain and agricultural specialist, lift annual profits to £2.87m pre-tax, against £2.29m.

Turnover in the 12 months to April 30 improved to £280.6m (£236.7m) reflecting the influence of sterling's withdrawal from the ERM on cereal prices; sales included a full contribution from Doltons and nine months from Rucker & Slann.

A proposed final dividend of 2p brings the total for the year to 9p (8.25p), covered 2.5 times by earnings of 22.5p (19.9p).

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 30/07/93 Pool purchase price £/MWh	Final Prices for Trading on 28/07/93 Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.04	18.11	18.11
0100	18.03	18.05	18.05
0130	18.03	18.04	18.04
0200	18.03	18.04	18.04
0230	18.03	18.04	18.04
0300	18.03	18.04	18.04
0330	18.03	18.02	18.02
0400	18.03	18.02	18.02
0430	18.03	18.02	18.02
0500	18.03	18.04	18.04
0530	34.00	20.07	23.39
0600	33.00	20.34	23.74
0630	33.00	20.34	23.72
0700	33.00	23.64	27.09
0730	24.44	23.79	27.15
0800	24.44	24.68	27.95
0830	25.21	27.48	30.75
0900	25.82	27.52	30.81
0930	27.22	29.94	33.31
1000	27.22	29.97	33.33
1030	27.23	28.73	32.05
1100	27.23	29.98	33.35
1130	33.00	33.21	36.71
1200	33.00	33.24	36.74
1230	33.00	33.19	36.66
1300	33.00	33.12	36.54
1330	27.15	26.50	29.68
1400	25.82	26.48	29.67
1430	25.82	26.48	29.66
1500	25.82	26.47	29.66
1530	25.03	26.47	29.66
1600	25.03	25.73	28.83
1630	25.03	27.62	30.85
1700	33.00	34.82	38.27
1730	33.00	34.81	38.25
1800	33.00	34.81	38.27
1830	24.44	24.99	28.14
1900	24.24	24.92	28.08
1930	24.06	24.92	28.09
2000	22.36	24.44	27.75
2030	22.36	24.44	27.76
2100	22.36	24.02	27.34
2130	33.00	33.00	36.48
2200	33.00	33.00	36.40
2230	33.00	33.00	36.39
2300	32.80	33.00	36.48
2330	22.50	24.02	27.38
2400	20.63	22.09	25.41

[illegible] Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-[illegible] between 8.30am and 5.15pm Monday to Friday.
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COMPANY NEWS: UK

Conversion of preferred and management shares expected next month

LWT improves to £16.5m

By Raymond Snoddy

LWT (HOLDINGS) yesterday announced pre-tax profits of £16.5m for the six months to June 30 – an increase of 20.5 per cent on the same period of 1992.

Sir Christopher Bland, chairman, claimed that an increase in underlying profit margins from 19.6 per cent to 26.6 per cent gave the company among the highest margins in the industry.

The announcement also set the clock running for the conversion of the preferred and management shares which is now expected to take place next month.

On the present price level – the shares rose another 14p to 483p yesterday having performed well since Granada recently acquired a 17.5 per cent stake – more than 40 managers are likely to hold ordinary shares worth a sum approaching £70m.

Sir Christopher said he expected managers to sell some shares almost immediately, partly to pay off loans taken out to purchase management shares. Sir Christopher said he expected managers to retain about 10 per cent of the shares out of the 15 per cent they will hold on conversion.

He added that the group was performing well and a "good result" was expected for the whole year, although advertising revenue continued to be short-term and difficult to forecast.

Turnover at £121.2m was down £13.2m, largely because of the loss of Channel 4 airtime. The company's share of net advertising revenue was up 3.8 per cent compared with 4 per cent for ITV as a whole.

LWT's share of London advertising was down by 0.25 per cent with the London share of ITV down by 1 per cent.

Operating profit before payments to the Independent Television Commission rose by 39 per cent to £32.3m.

Sir Christopher Bland: good result expected for the year

LWT's share of the £10m losses of Good Morning, the commercial breakfast service, was £2m.

Mr Greg Dyke, chief executive, said he hoped the service, which had run into stiffer-than-expected competition from Channel 4's The Big Breakfast, could break even next year although it might take until 1995.

Fully diluted earnings per share were up 24 per cent to 10.2p.

The company has already paid a fixed preferred dividend of 2.95p and another is likely in September. After that the board said it will adopt "a progressive dividend policy reflecting LWT's performance and cash position." The first ordinary dividend will be a final for the year to December 1993.

Barring unforeseen circumstances the total for the year will be "significantly ahead" of the current fixed dividend of 5.9p.

See Lex

Saville Gordon upbeat on future despite 33% fall

By Paul Cheeseright, Midlands Correspondent

J SAVILLE Gordon, the Birmingham-based group with interests split between steel and pipeline equipment merchanting and property investment, yesterday shrugged off a 33 per cent decline in annual profits with a forecast that it "is entering a period of real growth".

Pre-tax profits for the year to end-April were £2.35m (£3.49m). Turnover fell from £57.2m to £28.4m, reflecting the withdrawal from securities dealing at the end of the 1991-92 year.

Earnings per share slipped from 2.9p to 1.4p, but the final dividend is maintained at 1.7p for a same-again total of 2.2p.

Mr John Saville, chairman, accepted with equanimity the need to take funds from reserves to meet the dividend payment. "We've got the first few months of the current year under our belts; we know what we can afford," he said.

On the property side, operating profits rose last year and will continue to do so this year as rent reviews come into effect. But while last year the group did not obtain the full benefit of the declining interest rates, this year it will.

Meanwhile, on the merchanting side, there has been a sharp upturn in demand at the steel stockholding arm, and the company is making a profit for the first time in three years.

Pipeline equipment sales, however, are depressed and will remain so until a revival of the construction industry.

French sale helps Dale jump to £2.3m

By Zhang Tingting

DALE Electric International, the North Yorkshire-based power and lighting group, increased pre-tax profits by 41 per cent to £2.26m in the year to May 2, thanks to an exceptional gain of £1.05m relating to the disposal of its French subsidiaries in March.

Comparisons have been restated as the extraordinary item has been moved up the profits and loss account to an exceptional item, moving towards FRS 3 accounting principles. Accordingly, pre-tax profit of £1.79m is altered to £1.6m after an exceptional loss up from £158,000 to £347,000.

Mr Iain Dale, chairman, said the group had "a clear idea of its priorities and direction." The current year would benefit from the restructuring.

New opportunities had arisen both in the UK and overseas for the group's range of gas turbine generating sets for mobile and combined heat-and-power applications, he said.

Half of group sales of £60.1m (£55.9m), came from exports to more than 115 countries. Operating profits fell to £2.41m (£3.35m).

Mr Dale said the current order book was £19m, or four months work, compared with £25m a year ago. He said orders could be the main problem in the current first half in the nervous market.

Gearing was reduced from a peak of 110 per cent to 65 per cent, and "will be reduced further as the main part of the redundant Ashford site and a non-core business are sold." Interest charges fell from £1.86m to £1.57m.

Earnings per share increased by 51 per cent to 13.24p (8.74p). The final dividend of 3.1p makes an unchanged total of 5.1p.

Sir Tom McDonald, former chairman, is to retire as a non-executive director tomorrow.

The shares gained 6p to 110p.

Freeman falls to £357,000

A DECLINE in profits from French operations and a loss in its Spanish offshoot left Freeman Group, the USM-quoted insulation, distribution and fabrication specialist, with pre-tax profits down from £550,000 to £357,000 in the six months to June 30.

Mr Euan English, chairman, said, however, that adverse short-term trading conditions should not cloud what the board believed to be encouraging prospects for the medium term.

The results, in accordance with FRS 3, included exceptional income of £147,000 relating to the release of provision for expenses on discontinued operations.

Turnover rose to £31.9m (£28m), while interest rose to £373,000 (£282,000) mainly as a result of the cost of financing the Spanish subsidiary acquired last August. Earnings were 4.1p (4.9p) and the interim dividend is again 2p.

Witan bond issue raises £56m

By Philip Coggan, Personal Finance Editor

WITAN INVESTMENT, the largest investment trust managed by Henderson Touche Remnant, is raising £56.25m via an issue of exchangeable bonds which will mature in 2008.

The bonds will be convertible into a basket of shares in three other trusts managed by Henderson Touche Remnant – Electric and General, Greenfriar and Lowland.

The bonds will pay a coupon of 6.25 per cent and will be callable, at Witan's option, after 1998.

Witan has also sold part of its holding in the Henderson Administration fund management group. The sale of 1.75m shares, 8.2 per cent of Henderson's capital, raised £14.9m for Witan and reduced its stake to 15.2 per cent. Witan said it had no intention of making any further market sales in Henderson shares over the next 12 months; Henderson will still be the trust's single largest holding.

Mr Christopher Clarke, managing director of Witan said that the deal enabled the trust to reduce its exposure to Henderson or Henderson-managed trusts. Previously that exposure had represented over £100m out of Witan's assets of £880m.

In addition, Mr Clarke said the deal enabled Witan to sell shares in the three other trusts at a premium to their net asset values.

See International Bonds

Ex-Lands offer and placing to raise £15m

By Vanessa Houlder, Property Correspondent

EX-LANDS, a property investment and management group, has announced a placing and open offer to raise £15m.

It is also buying a £5.8m portfolio of property in South Kensington, comprising 13,730 sq ft of offices, 13 retail units and nine flats.

The remainder of the funds will be available for further purchases of high yielding property and additional working capital to fund the development of golf courses in continental Europe.

Ex-Lands is managed by Mr Robert Bourne and Mr Graham Bourne, who used to run Local London before it was sold to Priest Marians in 1989. The Saatchi brothers, founders of the advertising group, own 10 per cent of the shares.

The offer entitles shareholders to apply for £1 nominal of 7.5 per cent convertible unsecured loan stock 2020 for every five shares held. The offer has been underwritten by Paribas.

The company said it expects to make a pre-tax profit for the year to June 30 1993 of at least £900,000. It intends to pay a dividend of 0.35p for the year.

JOBS: What matters is not how many mistakes you make, but the spirit in which you make them

Stupidity – and how to learn from it

"WHY are we waiting... again?" is all that is written on the postcard sent from Bristol. Even so, the Jobs column knows not only what it refers to, but who the sender is.

The card is written in the same hand as the set of five, each asking just "Why are we waiting?", which arrived at monthly intervals between the May and the September of 1986. The sender called herself Amelia Bulstrode, which is hardly the sort of name one forgets.

What she was asking about was the Laws of Organisational Stupidity, which I'd previously promised to list in full only to let the next five months pass without doing so. As enduring readers may recall, the laws describe types of idiotic goings-on which seem to bedevil organisations of all kinds everywhere, an example being Parkinson's First which states: *Work expands to fill the time available.* And in 1986 there were a dozen laws in the canon.

Now, oddly enough, in March this year I again promised to give the full code which, with the help of new examples sent by readers, had grown to 23. So I pledged to list them "chunk by chunk, spaced over the next few weeks".

This time I've at least done rather better, managing to deal with 13 laws by the end of last month. But the list has since gone no farther, and Amelia Bulstrode presumably wants to hear about the other 10. If so, she's by no means alone, because colleagues as well as myself have lately had less subtle requests for the whole series.

The failure to finish the listing is due less to laziness than to a development bound up with the nature of the laws. The idea behind them isn't just to comfort frustrated high-achievers by showing that their sufferings are shared by their counterparts the world over. Behind that lies the hope of helping management researchers to trace the causes of the stupid occurrences that so regularly snarl up organisations' attempts to be effective.

Accordingly, each law is intended to describe a specific kind of idiocy which is essentially different from any of the idiocies depicted by the other laws in the code, and thus can be presumed also to have a different cause which needs to be pinpointed. Take for instance Professor Jerry Harvey's Abilene Paradox, one of the 13 already listed, which states: *People in groups agree on decisions which, as individuals, they know are stupid.* That seems different from Macaulay's Buck-shifter, also listed before, ruling: *Initiative declines with increasing ease of communications.*

So until last month, there I was confidently setting out the supposedly differently caused stupidities – which went perfectly well for the first 12 examples. But then came the 13th, and with it came trouble.

By contrast with the previous dozen, which had all been in the code for some time, it was newly discovered. It is named after Harvard University's Professor Chris Argyris who in his latest book* points out that much of the counter-productive politicking that goes on in organisations is rooted in a type of individual action which all of us have been learning to perform skilfully since before we could walk.

It is to respond to any problem that threatens to land us in hot water by first finding a way to by-pass it, then covering up the by-pass, covering up the cover-up...and so on. As a result, far from being solved, the problem is not even admitted to exist. It becomes, in the professor's terms, increasingly "undiscussible". Hence Argyris's Archetype which says: *The more threatening a problem to those responsible for solving it, the deeper it will become ingrained under ramifying layers of camouflage.*

The trouble was that, having discovered it, I realised that it destroyed the idea that each law in the code denotes a separate kind of stupidity with its own separate cause. For the Archetype accounts for several of the other idiocies formulated as laws.

For example, the tendency to by-pass problems explains the Buck-shifter. With high-speed communications, people faced with personally risky decisions can more easily by-pass them by referring them to someone higher up. Much the same applies to the Abilene tendency for people in groups to agree on what they individually know are stupid decisions. It is explained by the fact that the wiser courses of action which need to be taken are undiscussible, since none of the group members dare broach them for fear of losing their job.

That left me wondering how many more of the supposedly self-standing laws were in fact mere effects of the Argyris rule. The answer, alas, is certainly several, although I've not yet examined the implications deeply enough to give a precise number.

Fortunately, however, there are some which clearly still stand alone. And they're exemplified by one which also illustrates the debt the whole laws project owes to readers' help.

Another postcard that arrived in 1986 came from one Peter Kelly in Dublin, who proposed a law reading simply "Errors breed". But while they certainly do so in some circumstances, there are clearly others in which errors merely arise intermittently with no connection between them.

One thing that struck me as likely to explain the difference was the American psychologist David McClelland's division of people into two broad kinds. The first are those motivated by a need for positive achievement, who tend to look on their errors as an opportunity to do better next time. The others, motivated by fear of failure, are typically preoccupied by the need to avoid making mistakes.

So, in my role as the self-appointed codifier, I extended the proposal into what is now named Kelly's "Katabolism" (a faulty life-support system that kills the organism affected). The law says: *Errors breed as concentration on avoiding them increases.*

What's more, it is true.

Anyone who doubts me need only consult psychologist Michael Frese of Giessen University in Germany who besides having studied mistake-making in detail has developed ways of much reducing the bad effects. His research suggests that when people are put under pressure to avoid doing anything wrong, the stress they feel on finding they've made an error tends to fluster them into making more.

The remedy he proposes is to scrap training consisting of step-by-step procedures which people are told to follow strictly and, if they do something wrong, to call the instructors who will put things right before again showing them what they should have done instead. His studies indicate that it's better to set trainees tasks so complicated that they are bound to make mistakes and, when they do, respond with "Great – you can now learn something really useful by finding out how to put things right yourself".

The result, he finds, is not only that they tend to learn more complex skills faster. No less important is that, although they make more mistakes than people trained in the other way, their errors are far less likely to have damaging consequences because they're better equipped to take corrective action in good time.

Which said, the Jobs column is off on holiday. I hope to meet you all – including Mrs Bulstrode – again on September 8.

Michael Dixon

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ACCOUNTANCY COLUMN

US profession faces up to self-policing role

Mark Carr on a reform package which addresses the gap between users' expectations and reality

THE US accounting profession has leapt from inaction into a frenzy of reform activity as it faces one of the most challenging periods in its history.

With great fanfare the 310,000-member American Institute of Certified Public Accountants (AICPA) last month unveiled a reform package designed to beef up its self-policing mechanism and take on additional reporting responsibilities.

Several weeks earlier, it recommended that the US Congress enact legislation to strengthen the reporting requirements for pension funds.

Describing these reforms, Mr John Hunnicutt, vice president of legislative affairs for the AICPA, told a group in Alabama that the profession's leadership was aware of the beating accountants took as the result of the savings and loans scandals. Damage control was too little and too late. This time, he said, the profession wanted to "get ahead of the curve".

These and other recent moves by US accountants are designed to improve the profession's sagging image as Congress holds hearings on possible reform of federal securities laws. Citing estimates that accounting firms face 4,000 lawsuits seeking $20bn, (£13bn) the profession claims it cannot survive without legal relief from "abusive" securities suits.

High profile financial failures and record settlements between accounting firms and litigators not only cut into partners' pockets. They have also chipped away at the profession's once pristine image among the public, politicians and potential recruits.

"Given the unprecedented level of financial fraud witnessed over the past decade, the investing public and this sub-committee have a legitimate right to ask why so many financial institutions failed shortly after receiving an unqualified opinion," Mr William McLucas, director of the enforcement division of the Securities and Exchange Commission (SEC), told Congress recently.

As the most recent reforms indicate, the profession realises that before there can be any relief from lawsuits, it must address the gap between users' expectations of auditors and the actual service delivered. While some can only be enacted through legislation, others could be implemented through the profession's system of self-governance and private-sector standard setting.

Broadly speaking the AICPA aims are three-fold:

- Revamp the self-policing system. The AICPA would replace its current disciplinary system, which moves at glacial speed because it must await the outcome of litigation, with a mechanism to investigate swiftly and punish accountants guilty of misconduct or substandard work. Another proposed initiative would bar public companies from hiring the partner in charge of their audit for one year. Both require legislation.
- Revitalise financial reporting practices. The current process is outdated and no longer meets the needs of users. "In many ways we're selling a 1930s product to a 1990s audience," says Mr Jake Netterville, AICPA chairman. As part of its effort, the institute calls for greater disclosure of risks and uncertainties and a complete review of financial reporting practices.
- Achieve near-perfect fraud detection. Current auditing standards require procedures designed to detect material fraud. But in introducing the reform initiatives, Mr Netterville startled many by declaring: "Fraud detection is our job. The public expects auditors to uncover financial manipulation. Our goal is 100 per cent detection." The reform package advocates tougher new guidelines to assess the possibility of management fraud.

In addition to these intiatives, the profession has dropped its long-standing opposition to fraud reporting legislation which demands that auditors report suspected wrongdoing to the authorities. It calls for new laws forcing all participants in the reporting system to notify auditors of financial shenanigans. It also advocates management reporting – verified by auditors – on the effectiveness of internal controls.

The reform package suggests that the institute leadership accepts change is necessary. But a closer look reveals that many of the proposals are existing projects that have been dusted off in preparation for the Congressional hearings on litigation reform.

For example, a special AICPA committee has been studying user needs and the financial reporting process for more than two years, and should release its report next spring. The institute's Accounting Standards Executive Committee has already issued an exposure draft of a rule that would require auditors to report on risks and uncertainties.

The freshest components of the recent package aim to polish the tarnished image of the auditor. But critics point out that these proposals, such as investigations of alleged audit failure and bans on hiring audit partners, lack detail and a concrete timetable for implementation.

"We are heartened by their statements but we would expect that there would be more action on the public interest agenda before we move to their private interest agenda," said an aide to Representative Ron Wyden, a Congressman from Oregon and long-time critic of the profession.

Mr Walter Schuetze, the Security and Exchange Commission's chief accountant, says: "The single most significant and encouraging thing about these initiatives is that the profession is finally admitting its responsibility to report fraud."

Because of its potential to increase liability exposure, this promise is also the most dangerous aspect of the new proposals. The profession's guidelines remain vague. Equally, auditors alone cannot compel other participants in the reporting process – like bank examiners and lawyers – to blow the whistle on suspected fraud.

Most experts agree that detecting all fraud is unrealistic and would be too costly to implement. No audit can identify sophisticated collusion among top management or all non-material fraud. The high risk of failure in this area has the potential to sabotage the profession's efforts in others.

Additionally, internal control reporting has been advocated and rejected several times over the past decade. Although the concept was recently incorporated into new banking rules governing the largest financial institutions, some experts question whether the reviews will be effective against fraud.

Critics such as many companies argue that the substantial costs far outweigh the benefits. In the case of banks, the process has been estimated to add 5 to 20 per cent to the price of an audit.

The reforms may do little to sway Congress as it considers legal reform. But improving the usefulness of financial reporting and shoring up the public's perception of auditor objectivity and independence may prove just as important to the survival of the profession.

They also represent a public commitment by the AICPA. Many of the reform efforts require action by Congress, the SEC or other regulatory bodies, raising the danger that accountants will be perceived as dragging their feet through no fault of their own.

The next few months will be a critical time for accountants in the US. With or without tort reform, it is essential that accountants take charge of their destiny by aggressively implementing those reforms on which they have the power to act. The credibility of the profession is on the line.

Mark Carr is editor of Public Accounting Report, a newsletter covering the US profession based in Atlanta, Georgia.

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Interested applicants should forward a comprehensive CV, **quoting ref: 159623** to **Mark Hurley ACMA** or **Jo Baker** at **Executive Division, Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LH.**

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An internal promotion has created the need to appoint an ambitious qualified accountant with strong communication and technical skills. Reporting to the Managing Director and functionally to the Group Finance Director, the successful candidate will head a small team with full responsibility for financial reporting, financial planning/ forecasting and analysis and treasury management.

In addition the role will involve the evaluation of new client proposals and marketing campaigns as well as analysing the performance of existing business.

The prospective candidate must be a graduate calibre qualified accountant, aged 30-40, with a successful track record ideally gained within a multi-currency environment. Individuals with experience in either a trading or service based industry will be of particular interest. Applicants should be able to offer both a 'hands-on' approach and possess the intellectual ability to gain the respect of senior management.

Equally important are the personal qualities which must include a high level of energy and self-motivation coupled with an organised yet flexible approach.

Interested applicants should send a curriculum vitae to **Guy Matthews** at **Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LH. Please quote ref : 160404.**

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- handling external relationships with investors, banks and institutions;
- reviewing and developing managment information systems;
- ensuring that the board has necessary and timely information required for key decision-making.

As your understanding of the business develops you will also take responsibility for negotiating and monitoring commercial contracts.

Preferably a graduate and/or MBA, you must be a qualified accountant with senior line finance experience in a listed plc, preferably within a contractual services environment. Previous exposure to dealing with city institutions and investors would be advantageous. In addition to professional skills of the highest order, we will be looking for well developed interpersonal abilities, commercial acumen and the personal authority to command respect at all levels.

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هكذا امنه الأصل

COMMODITIES AND AGRICULTURE

LME issues warning over copper squeeze

By Kenneth Gooding, Mining Correspondent

THE LONDON Metal Exchange yesterday reacted to 'widespread suggestions of that its "flagship" copper market, on which most contracts around the world are based, was being manipulated to boost the price.

It formally warned market users that it was continuing to monitor very closely the acute technical supply tightness that had developed between September and early October and "will not hesitate to take such steps as are deemed necessary in the light of any changing situation".

Mr David King, chief executive, strode on to the floor of the exchange to remind members that LME rules gave the board draconian powers to ensure there is an orderly market. He said later: "We wanted to make very clear what powers we have and that we won't hesitate to use them".

An earlier warning on July 14 that the LME was monitoring the copper market had little impact and yesterday's intervention also had no immediate effect. The backwardation (premium for metal for immediate delivery) for September to three months last night remained $17 a tonne.

Analysts suggested the LME's action was proof that the copper market was being manipulated because if ordinary market forces were at play the board would not have been so overtly concerned. One trader pointed out that market volumes were huge so it was therefore easy to trade and for positions to be unwound. But those behind the squeeze would probably defy the LME's authority.

Options activity suggests those behind the squeeze are looking for copper prices of $2,000 a tonne in September to October. Last night copper for delivery in three months was up $11.25 to $1,965 in spite of LME stocks standing at a 15-year peak of 463,000 tonnes.

The situation is highly reminiscent of the technical squeeze in December, 1991. That resulted in the LME board taking the unprecedented step of limiting the backwardation to £25 a tonne a day (until recently LME copper was quoted in sterling).

Unusual activity has kept the copper market in turmoil for much of this year. The price fell by one quarter in only five weeks, culminating in a 5½-year low of $1,705 a tonne in May. Several LME trading houses suffered huge losses because of that sudden and steep collapse.

Now the price has bounced back and, according to Mr Simon Hunt, chairman of the Brook Hunt and Associates consultancy group, a "ferocious battle is being fought out on the LME between the copper bulls and bears". He says the bulls, mainly financial institutions together with one or two big metals market players, are rumoured to have bought forward more than 600,000 tonnes of copper.

Mr Hunt warns: "There is a mixture of knowledgeable selling [the trade] and ignorant buying [the institutions] which, against the background of deteriorating fundamentals, is bound to cause copper prices to fall suddenly and sharply at some time this year". He says continuing high prices will delay necessary cuts in copper output and will lead to a cumulative supply surplus of 1m tonnes by the end of this year and one of 2.9m tonnes by the end of 1996.

Curragh hopes to reopen Yukon zinc/lead mines

By Robert Gibbens in Montreal

CURRAGH RESOURCES, operating under bankruptcy protection, hopes to reopen its two Yukon zinc/lead mines in the first half of 1994 if two big Korean investors finally put up C$60m (£26m) in new equity and the company succeeds in getting a C$34m government loan guarantee.

But Mr Clifford Frame told the annual meeting in Toronto that Curragh also needed to restructure C$200m of debt and be confident of a zinc price of about 50 US cents a pound and a lead price of 22 cents a pound, substantially higher than present levels.

It was Curragh's first annual meeting since an explosion in a company coal mine in Nova Scotia in May 1992 killed 26 miners. The company faces manslaughter charges.

Curragh has to raise C$25m itself in new equity to seal the investment by Korea Zinc and Samsung. It hopes to complete its financial restructuring in September and emerge from protection.

Coffee at fresh high as cartel talks begin

By David Blackwell

LONDON ROBUSTA coffee prices touched six months highs yesterday as Latin American producers met to thrash out the details of their planned cartel.

The two-day meeting of representatives from Brazil, Colombia and Guatemala kicked off yesterday in Rio de Janeiro with talks on the formation of an Association of Coffee Producing Countries. Today the talks switch to the plan to keep 20 per cent of eight member countries' exports off the world market.

The coffee retention plan has been well-timed, according to the latest coffee report from E.D & F. Man, the London trade house. "Producer stocks are low and exportable production is around or below annual international demand, which we estimate at some 74m bags."

Man believes that any increase in producer stocks should be matched by a fall in consumer stocks of a similar or greater magnitude. The US Department of Agriculture estimates producer stocks at 35m bags – lower than at any time in recent history.

The key negative factor that the scheme needs to counter is the high level of consumer stocks. Man estimates that a fall from 20m bags to between 15m and 16m bags in consumer stocks would result in a the International Coffee Organisation indicator price rising to between 70 and 80 cents a lb.

While this would require a fall in 1993-94 world exports to about 69m bags, producers' earnings would increase by about $1.3bn to $6.8bn.

The ICO indicator price has averaged only 54 cents a lb in the last 12 months. A move to between 70 and 80 cents would be equivalent to the New York arabica market reaching 90 cents a lb and the London robusta market $1,300 a tonne.

Last night September robusta closed at $1,013 a tonne after touching a six-month high of $1,021 a tonne in early trading. The nearby New York arabica contract was at 74 cents a lb in late trading.

● The International Cocoa Organisation yesterday revised its 1992-93 figure for the world cocoa deficit upwards by 31,000 tonnes to 133,000 tonnes. This is in sharp contrast to the downward revision by E.D & F. Man earlier this month to its estimate for 1992-93, from 124,000 tonnes to 96,000 tonnes.

Gold outshines silver in Peru mining rush

Companies are ever more assiduously seeking the yellow metal, writes Sally Bowen

GOLD FEVER is gripping Peru. In the face of long-depressed silver prices – the South American country is the second largest producer after Mexico – local mining companies are ever more assiduously seeking the yellow metal; and joining them in the hunt is an increasing number of foreign mining houses.

According to Mr Carlos Diez Canseco, general manager of Peru's National Mining Society: "Gold is the what's attracting most of the foreign companies currently visiting Peru". Canadian, Australian and Korean interest is especially keen, he says.

Already well ahead of the field in the gold rush is a consortium formed by Newmont Mining of Denver, the biggest gold producer in the US and BRGM of France, together with Peru's own leading silver producer, the Buenaventura group. Mining is already under way at its Yanacocha gold deposit in the north-central Andes and processing is due to commence on Sunday. It is Peru's first large-scale dump-leaching operation and Newmont Exploration's first venture in the country.

Yanacocha – a disseminated, low-grade deposit – is expected to produce 250,000 troy ounces of gold a year, which will almost double Peru's output. Proven reserve levels guarantee at least seven years' output, and Newmont is exploring further in the surrounding area.

Usually, in leaching operations, the ore needs prior crushing. But in the Yanacocha deposits no preparation will be necessary. Trials have established that simple dump-leaching of Yanacocha's porous rock will allow recovery of some 83 per cent of the ore's gold content in the surprisingly short period of 30 days. (About 65 per cent recovery in double the period would be considered normal).

Yanacocha's highly soluble ore averages between 1.5 and three ounces of gold per tonne. It is planned to use the Merrill Crowe method for gold recovery, which involves the addition of zinc powder. The end product will be "dore" bullion, in a mixture of 60 per cent gold, 40 per cent silver. The consortium says it has not yet decided where, or even whether, to refine.

Development costs may total $45m – modest in relation to potential returns. In Chile, according to one member of the consortium, a similar project would involve three times the initial outlay. In fact, projected profitability is such that Buenaventura has obtained a rare development loan from a group of local Peruvian banks. Germany's state development bank DEG and the International Finance Corporation are also expected to participate in the financing.

Investment costs are being kept down by subcontracting all the earth-moving to a local company in partnership with Zublin of Germany. The entire operation will employ only about 100 workers. They will live in nearby Cajamarca, obviating the need for camp facilities.

Newmont is spending heavily on security for the new operation. And that is not surprising as an earlier joint project with BRGM was halted when guerrillas invaded the mining area. But Cajamarca looks a better security bet – the mine is only 45km by a good road from the departmental capital and guerrilla activity is almost non-existent.

As gold enters a mini-boom phase, the long-lasting depression in silver prices has forced all Peru's traditional silver producers to diversify.

The Buenaventura group, Peru's leading private producer, has entered into a series of joint ventures with other mining concerns, of which Yanacocha is only one.

Buenaventura is still heavily dependent, nevertheless, on silver. "We're trying to diversify, but it still accounts for around 70 per cent of our sales, down from 85 per cent," says Mr Roque Benavides. The group has a small percentage in the promising Iscaycruz zinc mine, which is scheduled to start producing in 1995 – other shareholders are BRGM, Paraibuna do Metais and Marc Rich – and an even smaller stake in Cyprus Minerals' bid for the Cerro Verde copper deposit, due for sale in September.

Milpo is another largely family-owned Peruvian mining company which has seen a dramatic shift in its business in the past decade. "In the early '80s and at $20 an ounce, our output hinged on silver," says Mr Augusto Baertl, Milpo's managing director. "But currently silver accounts for only some 15 per cent of total sales – zinc is our main product now, lead is second."

Milpo, however, like most Peruvian mines, has no alternative but to keep mining the silver – "It's an integral part of the ore; you have to exploit rationally everything you've got," says Mr Baertl. "While the silver isn't profitable by itself, at least it adds value to our zinc concentrates."

Milpo is involved in several gold exploration ventures, one with Buenaventura, another with Southern Peru Copper Corporation in the region near Peru's southern border with Chile.

If Yanacocha is outstanding for the grade of its ore and ease of exploitation, Peru offers plenty of other gold possibilities. The lure of alluvial deposits on the high plateau of Ananea, running down to the Madre de Dios river basin, has already transformed thousands of peasant farmers into gold panners – and there are prospects for larger-scale operations too. The areas between Ica and Arequipa in the south and around Pataz in the north are also interesting. In the Pataz area Peru's two largest traditional gold mines, Retamas and Poderosa, are doing very nicely.

Mineroperu, the state minerals company is also offering a series of already-studied gold deposits to private investors. These include the vast goldfields of San Antonio de Poto, on the high Andean plateau near Puno. But there are several smaller and more easily accessible projects that could be attractive to the medium-sized investor.

Indian tea output forecast to recover after 1992 setback

By Kunal Bose in Calcutta

INDIAN TEA production is likely to be close to the 1991 level this year after 1992's heavy decline, according to J. Thomas & Company's annual tea review.

The world's largest producer suffered a major setback of 37.8m kg last year to 703.9m kg, but the broking house believes the 1993 crop will reach 740m kg. In the five months to May the crop totalled 182m kg, up 30m kg compared with the corresponding period last year.

J. Thomas suggests that tea estates in south India "may struggle" to reach the 1991 record of 185m but says production gains in north India, including Assam, should be "remarkable".

The consensus in tea circles is that the world tea production in 1993 is set to return to the 1991 level of 2,546m kg with improved performances by the main producers – India, Sri Lanka and Kenya.

The Indian federal government has fixed a tea export target of 210m kg, worth about Rs12bn (£260m), for 1993, but J. Thomas says "it will be a significant achievement if we can achieve an export figure of around 200m kg". The broker's estimate appears to be more realistic as India's tea exports declined last year by nearly 30m kg to 173m kg because of reduced purchases by the CIS, which took only 50.3m kg, compared with 104.5m kg in 1991. The report warns that CIS demand has yet to "settle into a definite pattern" and that India will do well not to place too much reliance on it. In view of its present problems the CIS is expected to restrict its buying to the cheaper categories of tea.

Demand for Indian tea in hard currency areas will be influenced by two principal factors, J. Thomas says. The continued ability of Indian teas to remain competitive and "the extent of swing in the Indian production ratio in favour of CTC [cut, tear and curl] tea over orthodox tea."

Gardens in north India have been particularly successful in switching to production of CTC tea, the type favoured in the UK.

Iran, which last year bought more than 21m kg of Indian tea is expected remain a good market, especially with the private companies there back in business.

According to the report, traditional buyers like the UK, Egypt, Poland, Germany and Japan should absorb larger quantities of Indian tea. Exporters should also be able to make inroads into the Pakistani market, which imports more than 100m kg of tea, mainly from Kenya, Indonesia and Bangladesh. Last year India managed to sell only 1.55m kg to Pakistan.

South Africa is another country that is believed to offer good potential for Indian tea sales.

Tea prices, which have remained strong so far, will henceforward be influenced by the "availability of tea" in the remaining heavy cropping months up to October, J. Thomas says.

US flood damage prompts sharp cut in world grain forecast

By Richard Mooney

FLOOD DAMAGE to US crops is cited by the International Wheat Council as the main reason for a sharp cut in its estimate of world coarse grains production in 1993-94.

In the latest issue of its monthly Grain Market Report the council puts output in the coming year at 811m tonnes, compared with the 829m tonnes it forecast in its June report and actual production of 859m tonnes in 1992-93. And it warns that "the figure could be subject to further sizeable revision pending assessment of crop damage caused by flooding in the US mid-west.

However, the report raises the 1993-94 wheat estimate from last month's 560m tonnes to 562m tonnes, which would be unchanged on last season and exceeded only by the 1990 record of 592m tonnes. The increase is attributed to the expectation of a larger Russian harvest.

The report also gives forecasts of world carryover grain stocks, indicating that while wheat stocks are projected to rise by 5m tonnes to 134m tonnes during 1993-94, the coarse grains carryover, which rose by 32m tonnes last season, is likely on present indications to fall back by 25m tonnes to 126m tonnes.

The IWC cautions, however, that stocks assessments, which are given "for the sake of completeness", can be "liable to misinterpretation". Officially published national totals are rarely complete and commonly include only officially-held stocks, it notes. And for producing areas such as China and the former Soviet Union stock changes have to be inferred from production and consumption figures – "themselves only broad estimates".

Another problem is that differing year-ends mean that actual availability never falls as low as the aggregated carryover figure.

The council also notes that the trend towards minimising carryover stocks, which are costly to store, through production policies like acreage set-asides is further distorting the position. "Land set aside or fallowed in the major exporters can be seen as constituting another form of reserve," it says, "albeit one which cannot be drawn on quite so readily as physical stocks."

WORLD COMMODITIES PRICES

MARKET REPORT

ALUMINIUM prices lost earlier gains yesterday afternoon as lingering concern over production at the former Soviet Union's Sayansk smelter faded. The market settled back into its previous restricted range with final London Metal Exchange business at an unchanged $1,219 a tonne for three months delivery. The **TIN** market seemed to be heading for a test of recent 20-year lows as the three months position closed $17.50 down at $4,917.50 a tonne. **NICKEL** prices consolidated in the afternoon, having earlier run into some overhead selling at $5,050 a tonne for the three months position. But dealers thought the technical recovery might yet run further towards the $5,200-a-tonne level. At the London bullion market **GOLD** and **SILVER** prices ended little changed but the **PLATINUM** price firmed another $2.65 to $409.25 a troy ounce. Traders attributed the continued rise in platinum group metal prices to follow-through from Wednesday's strong performance, during which October platinum futures in the New York market forged through various resistance levels ranging from $411.00 to $415.00 an ounce.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)(Sep)		+ or -
Dubai	$14.72-4.75u	+0.035
Brent Blend (dated)	$16.99-7.01	-0.140
Brent Blend (Sep)	$16.99-7.01	-0.050
W.T.I (1 pm est)	$18.18-8.21u	-0.005
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$194-196	-1
Gas Oil	$163-164	
Heavy Fuel Oil	$60-61	
Naphtha	$165-166	-0.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$394.1	-0.1
Silver (per troy oz)♣	515.5c	
Platinum (per troy oz)	$409.25	+2.65
Palladium (per troy oz)	$141.50	+1.1
Copper (US Producer)	91.5c	+0.5
Lead (US Producer)	34.63c	
Tin (Kuala Lumpur market)	12.40m	-0.35
Tin (New York)	225.5c	
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	132.58p	-0.04*
Sheep (live weight)†♦	93.74p	+2.88*
Pigs (live weight)†	72.19p	-4.95*
London daily sugar (raw)	$241.5	+1.7
London daily sugar (white)	$265.0	
Tate and Lyle export price	£272.0	+1
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£171.0	
Wheat (US Dark Northern)	£163.5	
Rubber (Sep)♥	58.75p	-0.25
Rubber (Oct)♥	59.25p	-0.25
Rubber (KL RSS No 1 Jul)	208.0m	
Coconut oil (Philippines)§	$457.5v	
Palm Oil (Malaysian)§	$360.0t	-2.5
Copra (Philippines)§	$10.0c	
Soyabeans (US)	£205.5y	-4
Cotton "A" index	58.40c	-0.05
Wooltops (64s Super)	353p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Jul/Aug. z-Aug. v-Aug/Sep. u-Sep t-Oct/Dec x-Aug/Oct ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♦Sheep prices are now live weight prices * change from a week ago, provisional prices.

SUGAR – LCE ($ per tonne)

White	Close	Previous	High/Low
Oct	255.60	254.50	257.00 255.00
Dec	258.20	257.50	259.50 258.00
Mar	260.50	259.70	261.50 260.50

White 412 (382) Paris- White (FFr per tonne): Oct 1523.88 Dec 1552.68

CRUDE OIL – IPE ($/barrel)

	Latest	Previous	High/Low
Sep	16.96	17.09	17.24 16.83
Oct	17.07	17.17	17.27 16.99
Nov	17.25	17.27	17.33 17.12
Dec	17.38	17.30	17.43 17.33
Jan	17.36	17.40	17.36 17.34
IPE Index	17.14	17.12	17.14

Turnover 32343 (30817)

GAS OIL – IPE ($/tonne)

	Close	Previous	High/Low
Aug	162.00	161.75	162.75 160.75
Sep	163.00	162.75	163.75 161.25
Oct	164.75	164.25	165.00 163.50
Nov	166.25	166.00	166.75 165.25
Dec	168.50	168.00	168.75 167.00
Jan	169.75	169.50	169.75 168.50
Feb	169.50	169.50	169.00
Mar	168.00	168.00	167.50 167.00

Turnover 9915 (9517) lots of 100 tonnes

FRUIT & VEGETABLES

Bananas are this week's best fruit buy, priced at 40-55p a lb (40-55p), reports the FVIB. Other good buys include Spanis Galia melons at 60-99p each (60-99p), depending on size. French, Italian and Spanis peaches are widely available at 20-25p each (18-25p). Courgettes are the best vegetable buy this week. English, French and Jersey courgettes are still good value priced at 45-65p a lb (40-60p). English broad beans are excellent this time of year, at 30-40p a lb (25-35p). This weeks best salad buy is English celery, priced at 50-60p a head. English and Dutch tomatoes are still excellent, priced at 35-45p a lb.

COCOA – LCE (£/tonne)

	Close	Previous	High/Low
Jul	735	739	738 734
Sep	744	744	747 742
Dec	756	756	761 754
Mar	775	773	778 773
May	787	784	788 783
Jul	797	795	799 792
Sep	806	805	808 807
Mar	832	828	832 831
May	842	836	841

Turnover: 5408 (7355) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jul 28 746.46 (752.86) 10 day average for Jul 29 768.12 (771.67)

COFFEE – LCE ($/tonne)

	Close	Previous	High/Low
Jul	984	984	992 984
Sep	1014	1012	1022 1013
Nov	1018	1012	1026 1012
Jan	1011	1004	1022 1008
Mar	1011	1000	1018 1009
May	1006	1003	1014 1010
Jul	1005	1003	1014

Turnover: 2381 (1826) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jul 28 Comp. daily 62.30 (61.73) 15 day average 60.98 (60.81)

POTATOES – LCE (£/tonne)

	Close	Previous	High/Low
Apr	81.6	82.2	81.5 80.1
May	92.8	92.8	90.5

Turnover 84 (198) lots of 20 tonnes.

SOYAMEAL – LCE (£/tonne)

	Close	Previous	High/Low
Oct	176.00	181.00	

Turnover - (-) lots of 20 tonnes.

FREIGHT – LCE ($10/index point)

	Close	Previous	High/Low
Aug	1297	1310	1315 1300
Sep	1329	1320	1335 1395
Oct	1370	1380	1375 1370
Nov	1390	1390	1390
Jan	1401	1405	1401
BFI	1344	1346	1344

Turnover 75 (110)

GRAINS – LCE (£/tonne)

Wheat	Close	Previous	High/Low
Sep	106.05	106.30	106.30 106.30
Nov	107.00	107.70	107.70 107.00
Jan	109.00	109.70	109.70 109.10
Mar	111.00	111.85	111.50 111.10
May	113.10	113.80	113.50 113.10
Barley	**Close**	**Previous**	**High/Low**
Sep	101.40		101.50
Nov	103.25	103.25	103.75 103.25
May	108.75	108.90	108.75

Turnover: Wheat 165 (447), Barley 39 (73).
Turnover lots of 100 Tonnes.

PIGS – LCE (Cash Settlement) p/kg

	Close	Previous	High/Low
Aug	100.8	101.3	101.0 100.5
Oct	102.0	102.5	102.0

Turnover: 8 (31)lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 31,523 lots	
Cash	1197.5-98.5	1195-6		1198-99		
3 months	1220.5-21	1219-20	1224/1218	1222-22.5	1219-20	237,523 lots
Copper, Grade A ($ per tonne)					Total daily turnover 65,109 lots	
Cash	1960-62	1954-5	1961	1960-61		
3 months	1965.5-66	1954-5	1967/1955	1958-59	1967-68	222,935 lots
Lead ($ per tonne)					Total daily turnover 3,278 lots	
Cash	392.5-93	394-4.5	393/392.5	392-92.5		
3 months	405-05.5	407-7.5	406/405	405-05.5	405-06	23,842 lots
Nickel ($ per tonne)					Total daily turnover 7,927 lots	
Cash	4970-80	4945-55		4975-76		
3 months	5025-30	5000-5	5055/5010	5028-30	5030-35	44,509 lots
Tin ($ per tonne)					Total daily turnover 1,534 lots	
Cash	4860-70	4880-90		4856-60		
3 months	4915-20	4930-40	4940/4900	4905-10	4915-16	10,883 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 11,408 lots	
Cash	920-21	921.5-3.5	921/920	920-20.5		
3 months	936-37	937-8	943/936	938-38.5	938-38.5	73,121 lots

LME Closing £/$ rate: SPOT: 1.4885 3 months: 1.4798 6 months: 1.4683 9 months: 1.4652

Copper and lead prices are now expressed in dollars per tonne

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	393.90-394.30	
Opening	393.70-394.10	
Morning fix	393.30	263.834
Afternoon fix	394.00	263.863
Day's high	394.50-394.70	
Day's low	393.20-393.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.88	6 months	2.71
2 months	2.86	12 months	2.74
3 months	2.88		

Silver fix	p/troy oz	US cts equiv
Spot	343.80	514.50
3 months	348.70	518.40
6 months	353.35	522.90
12 months	362.35	532.50

GOLD COINS

	$ price	£ equivalent
Krugerrand	394.00-397.00	263.00-265.00
Maple leaf	404.25-406.80	-
New Sovereign	93.50-96.50	62.00-64.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Aug	Oct	Aug	Oct
1175	29	58	3	15
1200	11	43	8	24
1225	3	30	24	38
Copper (Grade A)	**Calls**		**Puts**	
1900	74	104	3	36
1950	33	75	10	57
2000	9	52	36	83
Coffee	**Sep**	**Nov**	**Sep**	**Nov**
850	164	175		15
900	116	33	2	28
950	72	6	8	49
Cocoa	**Sep**	**Dec**	**Sep**	**Dec**
725	49	56	11	27
750	30	44	23	38
775	17	34	39	53
Brent Crude	**Sep**	**Oct**	**Sep**	**Oct**
1700	21	50	24	
1750	7	26	46	
1800	5	12	92	

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Aug	397.8	393.4	401.0	392.0
Sep	398.8	394.4	395.5	394.6
Oct	400.1	395.7	401.5	394.7
Dec	402.2	397.8	402.5	398.5
Feb	404.4	399.8	402.0	398.6
Apr	408.3	401.9	403.2	401.7
Jun	408.3	404.0	405.5	403.3
Aug	410.4	406.1	407.2	406.2
Oct	412.4	408.1	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	414.9	412.0	415.0	411.0
Jan	415.9	413.0	416.0	413.0
Apr	416.9	414.0	416.0	413.0
Jul	417.7	415.0	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Aug	520.4	515.4	0	0
Sep	522.0	517.0	523.0	420.0
Dec	527.4	522.4	529.0	514.0
Jan	528.0	523.0	0	0
Mar	532.8	527.8	328.5	521.5
May	536.9	531.9	533.0	530.0
Jul	540.5	535.7	537.0	581.0
Sep	544.5	539.7	541.0	541.0
Dec	550.4	545.6	548.0	543.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Aug	87.25	86.95	87.25	87.00
Sep	87.65	87.40	87.85	87.30
Oct	87.75	87.45	87.80	87.65
Nov	87.80	87.55	0	0
Dec	87.80	87.60	87.90	87.40
Jan	87.90	87.70	0	0
Feb	87.95	87.75	88.00	88.00
Mar	88.10	87.90	88.00	87.90
Apr	88.20	88.00	88.20	88.15
May	88.25	88.05	88.00	88.00

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Sep	18.16	18.23	18.36	18.02
Oct	18.40	18.44	18.55	18.27
Nov	18.58	18.58	18.69	18.42
Dec	18.65	18.69	18.80	18.52
Jan	18.74	18.80	18.78	18.64
Feb	18.84	18.88	18.88	18.84
Mar	18.98	18.98	18.98	18.96
Apr	18.88	19.01	0	0
May	19.06	19.06	0	0
Jun	19.19	19.11	19.04	19.04

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Aug	51.05	51.35	51.55	50.80
Sep	51.70	52.03	52.15	51.50
Oct	52.75	52.98	53.15	52.50
Nov	53.75	54.01	54.15	53.60
Dec	54.85	55.01	55.10	54.55
Jan	55.55	55.86	55.70	55.40
Feb	56.00	55.86	56.10	55.75
Mar	55.20	55.06	55.30	55.00
Apr	54.06	54.06	0	0
May	53.20	53.21	53.20	53.20

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Sep	940	930	944	926
Dec	980	970	984	968
Mar	1013	1001	1016	1002
May	1034	1022	1033	1032
Jul	1054	1042	0	0
Sep	1074	1062	0	0
Dec	1097	1085	0	0
Mar	1118	1106	1104	1104
May	1136	1124	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Sep	74.10	73.45	74.25	73.35
Dec	76.75	76.00	76.90	76.00
Mar	78.95	78.35	79.00	78.50
May	80.30	79.70	80.50	80.30
Jul	81.80	81.25	0	0
Sep	83.30	82.75	0	0
Dec	85.80	84.95	85.80	85.00

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	9.29	9.21	9.34	9.23
Mar	9.71	9.60	9.78	9.66
May	9.79	9.70	9.83	9.76
Jul	9.84	9.76	9.89	9.83
Oct	9.84	9.77	9.86	9.70

COTTON 50,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	60.55	60.17	60.80	60.15
Dec	61.84	61.35	62.00	61.30
Mar	63.10	62.55	63.10	62.70
May	63.71	63.17	0	0
Jul	64.11	63.54	64.00	64.00
Oct	61.55	61.40	0	0
Dec	61.83	61.55	61.50	61.50

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Sep	114.90	112.60	116.00	113.70
Nov	117.50	115.50	119.10	116.60
Jan	119.65	117.25	120.85	119.50
Mar	121.45	119.50	122.50	120.00
May	121.75	121.95	123.00	121.75
Jul	122.45	121.95	0	0
Sep	121.45	120.95	123.50	123.50
Nov	121.45	120.95	0	0

INDICES

REUTERS (Base:September 18 1931 = 100)

Jul.29	Jul.28	mnth ago	yr ago
1644.3	1636.6	1668.5	1543.2

DOW JONES (Base: Dec. 31 1974 = 100)

	Jul.28	Jul.27	mnth ago	yr ago
Spot	124.16	124.15	120.93	117.94
Futures	130.42	129.93	120.24	116.52

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Aug	689/6	688/6	693/4	684/0
Sep	692/0	690/0	694/4	685/0
Nov	692/6	690/6	695/0	685/0
Jan	695/4	693/4	698/4	689/0
Mar	697/2	696/0	700/0	692/0
May	697/4	695/0	700/0	691/0
Jul	697/4	695/0	700/0	691/0
Aug	685/2	684/0	687/0	683/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Aug	23.19	23.13	23.30	23.03
Sep	23.34	23.27	23.45	23.18
Oct	23.48	23.41	23.58	23.30
Dec	23.69	23.66	23.82	23.54
Jan	23.73	23.73	23.85	23.65
Mar	23.85	23.86	23.95	23.75
May	23.90	23.95	24.00	23.80
Jul	23.88	23.97	24.03	23.85

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Aug	228.3	226.4	229.2	225.8
Sep	225.1	223.9	226.2	222.6
Oct	223.1	221.7	224.0	220.8
Dec	222.2	221.4	223.2	220.0
Jan	221.2	220.8	221.5	219.0
Mar	219.7	219.0	220.5	218.0
May	218.0	216.3	218.0	216.0
Jul	215.0	214.3	217.0	215.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Sep	239/0	241/2	241/0	238/6
Dec	244/6	246/4	247/2	244/2
Mar	251/6	253/0	254/0	251/4
May	256/6	258/0	258/2	256/4
Jul	258/4	259/2	259/6	257/6
Sep	246/4	247/4	248/0	246/4
Dec	239/0	241/2	240/6	238/2

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Sep	308/4	315/6	315/0	307/0
Dec	317/0	323/0	324/0	315/0
Mar	320/0	326/0	326/0	318/2
May	314/0	318/4	320/0	313/2
Jul	303/6	307/4	308/4	302/4
Sep	306/6	311/0	0	0
Jul	311/0	0	0	0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Aug	75.575	75.300	75.600	75.100
Oct	75.075	74.875	75.100	74.700
Dec	75.075	75.250	75.475	74.900
Feb	75.350	75.375	75.650	75.100
Apr	76.350	76.375	76.650	76.200
Jun	73.075	73.275	73.500	73.050
Aug	72.050	72.125	72.500	72.050

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Aug	49.000	47.800	49.075	48.000
Oct	45.875	45.075	45.900	45.100
Dec	46.875	46.125	46.950	46.075
Feb	46.500	46.475	46.550	46.200
Apr	44.825	44.950	45.000	44.800
Jun	49.825	49.750	49.975	49.750
Jul	48.600	48.750	48.800	48.600

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Aug	44.225	42.225	44.225	41.850
Feb	52.400	50.475	52.475	50.100
Mar	51.900	49.900	51.900	49.650
May	53.300	51.500	53.300	51.600
Jul	52.325	51.300	52.325	0
Aug	53.500	52.500	53.500	0

FT-SE Index breaks through 2,900

By Terry Byland,
UK Stock Market Editor

LONDON equities paused only for a moment yesterday to swallow their disappointment at the Bundesbank's failure to deliver the expected cut in its discount rate, and then turned strongly ahead as foreign exchange markets signalled mounting pressures on the ERM currencies.

The FT-SE 100 Index broke decisively through the 2,900 barrier as traders scented a possible repetition of sterling's experience last September, with currency stresses perhaps leading this time to interest rate cuts in leading countries in the ERM network and then in Britain. Some speculators even suggested that UK base rates might be lowered today.

The FT-SE 100 jumped by 33.4 points to 2,917.6, its highest closing level for more than four months and only 1.3 per cent below the all-time closing peak of 2,957.3 achieved on March 8. The late upturn was even more marked in the second line stocks and left the FT-SE Mid 250 Index 28.2 higher at a new peak of 3,273.

The stock market, although firm throughout the session, hung fire for a while after the announcement that the Bundesbank was cutting Lombard rate by half a point but leaving the key discount rate unchanged. The drive forward came late in the afternoon when sterling, UK government bonds, the US dollar and Wall Street provided impetus.

Stock index futures opened the way ahead, with the September contract on the FT-SE Index racing to a 20-point premium against cash, stimulating heavy arbitrage business represented by selling of futures and buying of the underlying blue chip shares.

The lower interest rate scenario brought share gains across a range of issues. The UK banking sector rebounded strongly from early weakness to close firmly ahead of the opening of the dividend and reporting season. Lower rates in the UK would ease the burden of bad debts on the banks, and yesterday's developments helped offset warnings from several UK sources that bank shares are overpriced.

Store and retail stocks also improved, but in fairly restrained fashion. Equity trading volume was good but not sensational, with Seaq volume of 691.8m shares comparing with 690m in the previous session. Non-Footsie business slipped back to only around 58 per cent of total business. On Wednesday, retail or customer business, remained high at a worth of £1.45bn.

In the first half of the session, when equities were temporarily discouraged by the somewhat muted action from the Bundesbank, the Footsie slipped back after touching 2,987.4 and it seemed that the 2,900 barrier was still solid. Pharmaceutical stocks looked uncertain, with Wellcome unresponsive to an apparently bullish report on Aids treatments. Trading results from ICI were well received.

However, strategic concepts were largely pushed aside when currency turmoil increased, and analysts were in no doubt that the foreign exchange markets will call the tune in equities today. Trading screens will be manned early as dealers assess overnight currency trading.

Nick Knight, the bullish commentator at Nomura, last night reiterated his forecast of a Footsie at 3,500 by the year-end. Some dealers warned that the close of the equity account today could spark profit-taking.

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change
ASDA Group†	7,000	63½	
Abbey National†	6,200	380½	+½
Albert Fisher	1,300	62	-1
Allied-Lyons†	3,000	570	+12
Anglian Water†	2,000	486	+10
Argos	354	322	+1
Argyll Group†	1,900	309	+3
Arjo Wiggins†	4,000	194	+12
Assoc. Brit. Foods†	289	464	+1
Ass. Brit. Ports	329	418	+3
BAA†	1,990	772	+8
BAT Inds.†	8,200	459	+13½
BET	1,300	122	+½
BICC	1,000	417	+8
BOC†	1,000	677	+17
BP†	6,300	307	+8
BPB Inds.	8,100	725	+7
BT†	12,000	415½	-2
BT (P/Paid)	22,000	172	-2
BTR†	3,700	377	+2
Bank of Scotland†	1,900	156½	+1½
Barclays†	5,300	487	+8
Bass†	1,800	482	+9
Blue Circle†	1,800	264	+8
Booker	412	391	-2
Boots†	4,100	448	+3
Bowater†	1,400	487	+7
Brit. Aerospace†	589	418	+2
British Airways†	2,100	331	+5
British Gas†	6,400	309	+2½
British Land	800	350	+6
British Steel†	9,300	110½	+1½
Bunzl	41	138	+2
Burmah Castrol†	1,000	738	+7
Burton	8,200	80	+2½
Cable & Wire†	4,400	814¼	+26¼
Cadbury Schweppes†	3,500	472	+12
Calor Group	487	355	+5
Carlton Comms†	1,200	738	-2
Coats Viyella†	515	238	+2
Comm. Union†	2,300	618	+5
Cookson	2,000	212	+5
Courtaulds†	1,200	545	+10
Dalgety	1,400	444	
De La Rue†	472	872	+5
Dixons	730	211	+1
Eastern Elect.	833	497	+8
East Midland Elect.	718	488	+8
Eng China Clays	1,100	426	+6
Enterprise Oil†	1,000	458	+3
Eurotunnel Units	527	440	-4
FKI	999	150½	+1
Fisons	680	169	
Foreign & Col. I.T.	311	238½	+1
Forte†	3,500	217	+3
Gen. Accident†	1,000	655	+6
General Elect†	5,400	340½	+5½
Glaxo†	5,300	656	-2
Glynwed Int.	1,100	310	+15
Granada†	565	400	+3
Grand Met†	3,900	419	+4
GUS A†	392	1590	+15
GRE†	987	200	+1
GKN	1,000	477	+8
Guinness†	5,800	484	+14
HSBC (75p shs)†	2,800	649	+10
Hammerson 'A'	715	330	-3
Hanson†	9,900	235	+1½
Harrisons Crosfield	5,000	186	+11
Hillsdown	2,400	170	
IMI	42	285½	+3½
ICI†	8,200	666	+16
Inchcape†	1,800	548	+3
Johnson Matthey	738	470	+5
Kingfisher†	2,400	617	+8
Kwik Save	562	684	
Ladbroke†	3,200	186	+8
Land Securities†	2,200	629	+5
Laporte	763	601	+3
Legal & General†	1,600	409	+7
Lloyds Abbey	4,600	414	-4
Lloyds Bank†	4,100	562	+5
LASMO	7,000	137	+2
London Elect.	1,100	507	+8
Lonrho	1,100	127	
Lucas	7,300	148	+1
MD Caradon†	2,100	262	+8
MEPC	297	471	+1
MFI	1,800	134	
Manweb	880	649	+4
Marks & Spencer†	4,600	344	+7
Midlands Elect.	2,200	630	+3
Morrison (Wm)	433	137	
NFC†	1,400	236	+2
NatWest Bank†	8,000	501	+10
National Power†	3,300	361	+2
Next	2,300	184	+2½
North West Water†	1,100	475	+8
Northern Elect.	470	542	+3
Northern Foods†	843	261	+1
Norweb	418	540	+2
Pearson†	1,100	487	+10
P & O†	2,100	660	+17
Pilkington	5,400	140	
PowerGen†	1,900	387	+4
Prudential†	3,800	316	+6
RMC†	517	797	+11
RTZ†	1,800	686	-7
Racal	652	238	
Rank Org†	1,500	738	+6
Reckitt & Colman†	3,400	567	+9
Redland†	2,300	504	+16
Reed Intl.†	701	659	+3
Rentokil†	1,000	185	-2
Reuters†	590	1432	-7
Rolls-Royce	3,100	138	-½
Rothmans†	184	862	-2
Ryl Bk Scotland†	985	288	+4
Royal Insurance†	2,400	333	
Saatchi	385	183	
Sainsbury†	1,400	486	-2
Scottish & New.†	773	447	+3
Scot. Hydro-Elect.†	1,000	352	+2
Scottish Power†	3,100	333	+2
Sears†	7,200	99	+1
Sedgwick	698	200	
Seeboard	183	549	+7
Severn Trent Water†	3,400	488½	+12½
Shell Transport†	3,300	638	+8½
Siebe†	978	508	+5
Slough Ests	582	238	+3
Smith (WH) A	587	433	-5
Smith & Nephew†	1,400	148½	+1½
SmKl Beecham†	3,600	461	-1
SmKl Beecham Uts.†	1,700	409	-1
Smiths Inds.	1,000	369	+12
Southern Elect.	405	508	+3
South Wales Elect.	631	560	+12
South West Water	368	510	+10
South West. Elect.	721	507	+9
Southern Water	1,500	512	+22
Standard Chartd.†	372	844	+12
Storehouse	2,100	190	-1
Sun Alliance†	4,800	385	+10
T&N	1,200	230	+2½
TI Group†	1,300	342	+3
TSB†	5,800	205½	+4½
Tarmac	3,000	140	+1
Tate & Lyle†	617	389	+2
Taylor Woodrow	1,300	116	+3
Tesco†	4,500	207	+2½
Thames Water†	2,200	489	+12
Thorn EMI†	2,500	864	+11
Tomkins†	1,900	224	
Trafalgar House	1,000	103	+3
Unigate	2,700	354	+8
Unilever†	1,000	978	+3
United Biscuits†	1,600	372	+8
Utd. Newspapers	1,000	528	-3
Vodafone†	2,400	483	+18
Warburg (SG)†	753	747	+11
Wellcome†	3,200	695	-1
Welsh Water	1,100	558	+15
Wessex Water	125	591	+17
Whitbread 'A'†	911	508	+5
Williams Hldgs.†	899	322	+1
Willis Corroon	95	223	
Wimpey	3,300	169	
Wolseley†	705	675	-3
Yorkshire Elect.	798	537	+8
Yorkshire Water	830	499	+13
Zeneca†	8,600	646	+24

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 index constituent.

Account Dealing Dates

*First Dealings:	Jul 19	Aug 2	Aug 16
Option Declarations:	Jul 29	Aug 12	Sep 2
Last Dealings:	Jul 30	Aug 13	Sep 3
Account Day:	Aug 9	Aug 23	Sep 13

*New time dealings may take place from 8.30am two business days earlier.

Good US buying lifts ICI

CHEMICALS giant ICI outperformed even yesterday's strong stock market as it unveiled its first set of results since its demerger. US buying was again in evidence as it was announced that American investors now speak for nearly 15 per cent of the group's stock, up from 3.5 per cent at the time of the break-up two months ago. The shares added 16 at 666p in turnover of 8.2m.

The reaction among London analysts was mixed, with the balance of opinion believing the shares to be fully valued, although still a good longer term purchase. The solid set of results were boosted by exchange rate moves, although analysts said they were pleased at the margin growth from cost-saving measures. The company warned that generic growth would be hampered by the economic downturn in many of its overseas markets.

Most analysts were moving their profits forecasts up to the £300m level following the results. However, James Capel remained a seller, arguing that the stock was probably around 10 per cent overvalued. Kleinwort Benson was positive but "not chasing the stock at these levels", while Smith New Court said it retained its "buy" recommendation.

Off-licence talks

Confirmation that Allied-Lyons is negotiating with Bass to buy its off-licence chain helped both sets of shares to move smartly forward. The move would allow Allied, which owns the 960-outlet Victoria Wine, to merge with Bass's Augustus Barnett chain of 583 shops. Together they would have a turnover of around £120m, according to analysts.

Discussions between the two companies have been continuing for several months, with Bass said to have put Augustus Barnett on the market some 18 months ago.

Industry analysts said the asking price had been around £60m, but many believe the company wuold settle for nearer £45m. Whatever the price, such a purchase would create a business to rival Whitbread's Thresher chain, which has more than 1,600 outlets. Augustus Barnett is thought to break even, while Victoria Wine is said to be only marginally profitable. Both have been under growing pressure from the expansion of the take-home trade at supermarkets.

C&W in demand

Telecoms group Cable and Wireless (C&W) surged as analysts returned positive from a meeting with Hong Kong Telecom, in which C&W has a majority stake. Market forecasts were raised for the Hong Kong group after it told the meeting that planned price reductions in some of its overseas markets were being postponed to later dates.

Analysts said they now expected earnings growth of around 15 per cent, against previous market forecasts of some 10 per cent. There were also reports of some profits upgrades in C&W as a result of the new HK Telecom estimates. Late trading was spiced up by rumours that US telecoms giant AT&T was planning a spectacular bid. C&W shares jumped 26¼ to 814¼p in turnover of 4.4m.

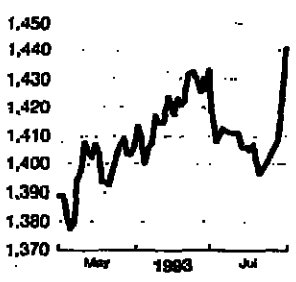
There was some switching into C&W from BT as investors continued to fret over the near-term outlook. The shares slipped 2 to 415½p, as did the partly paid to 172p.

TSB deal hopes

Rumours revived that BAT Industries may move to buy Hill Samuel. Sector specialists said that the speculation was feasible, considering BAT's interest in finance via Allied Dunbar and Eagle Star. Hill Samuel is well known as being open to sale from its parent, TSB. One analyst said that while there appeared to be nothing visible to explain the recent bout of rumours it would also not be a surprising event if BAT were to make a move.

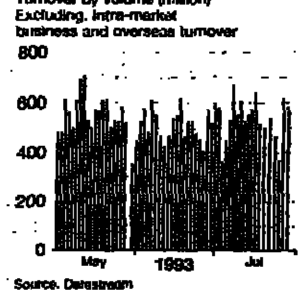
BAT moved up 13½ to 459p in turnover of 6.2m while TSB added 4½ to 205½p in turnover of 5.8m. It was also enjoying some confidence from recent figures.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding intra-market business and overseas turnover



Source: Datastream

The bank sector was generally strong in line with the market hopes on interest rate cuts. Barclays went ahead 8 to 487p, HSBC Ord added 10 to 649p and NatWest also added 10 to close at 501p in very strong volume of 9m.

Water stocks enjoyed a bounce as investors were attracted to their high yields. All the stocks made significant gains on the day with Anglian, Severn Trent and Thames Water favoured for buying from Smith New Court and SG Warburg.

But although the premium yields, especially ahead of interest rate cuts and with gilts performing well, make the stocks gain strength one industry specialist warned against letting confidence run too far in the sector. Ms Angela Whelan of BZW said that the stocks had been due a rise as they had recently lagged behind the performance of the regional electricity companies and their showing was not necessarily a sign of a significant turn.

Among the big movers were Anglian, which moved forward 10 to 486p, Northumbrian 10 to 595p, Southern 22 to 512p, Severn 12½ to 488½p, Thames 12 to 489p, Welsh 15 to 558p, Wessex 17 to 591 and Yorkshire 13 to 499p.

Pharmaceutical group Zeneca, newly demerged from ICI, produced results at the top end of market expectations and the shares zoomed forward, closing 26 ahead at 646p, its highest-ever level. Turnover was a hefty 8.6m. Zeneca said sales of agrochemicals rose 10 per cent in the first half to £825m, but trading profit fell 11 per cent to £85m, reflecting tough competition in world markets. Total pharmaceutical sales rose 22 per cent to £924m with trading profit 34 per cent ahead at £302m. The market was also cheered by a better than expected dividend.

Most brokers upgraded, Smith New Court adding £63m to £650m for the full-year profits. However, the house is cuatious about the longe-term outlook for Zeneca and prefers SmithKline Beecham and Wellcome. The former dropped a penny to 461p and the latter the same to 695p.

Profit-takers nibbled away at Reuters Holdings which fell back 7 to 1432p losing more of the advances it made early this week on its share buy-back programme.

Unigate's decision to sell its Arlington Motors division to Lex Service for £49.5m was seen as positive for the dairy group and the shares advanced 8 to 354p. The company said the proceeds would be used to reduce debt. Lex spurted 18 to 411p.

The German cut in the Lombard rate had direct impact on those stocks with large interests in Germany and Redland moved ahead 10 to 498p. RMC added 11 to 797p. Following the same path was Hepworth which went up 7 to 364p. Both Redland and RMC have enjoyed a steady climb upwards in recent sessions on the back of hopes over the rate cut.

Happier forecasts for the car industry rubbed off on Laird Group which moved ahead 14 to 335p in moderate volume of 1.3m. The group benefited from a growth in orders from VW and good results from Ford and Chrysler in the US.

GKN is inspiring investor interest in anticipation of its results due next week. The shares advanced 8 to 477p.

Similar expectation pushed up Glynwed 11½ to 306½p. Its results are also due next week.

Bid mutterings surrounded the unusually large volume of 1.2m in Excalibur, the jewellery and engineering company, which added 2 to 15p. One analyst said fingers were being pointed at Suter, which owns a large stake in Excalibur.

The recent agreement on the Manchester Ship Canal continues to benefit Peel Holdings which advanced 12 in a tight market to 261p.

Hopes of enfranchisement and positive sentiment ahead of forthcoming results pushed Pifco "A" vtg up 25 to 493p. One analyst said that the company had signalled it would like to get rid of its two-tier shares system.

MARKET REPORTERS:
Christopher Price,
Christine Buckley.

■ Other statistics, Page 23

NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (285).
BRITISH FUNDS (25) OTHER FIXED INTEREST (11) AMERICANS (2) Bankers NY, Merrill Lynch, BANKS (8) Asahi, Dai Ichi, Fuji, Mitsubishi, Sakura, Sanwa, Sumitomo, TSB, Tokai, BREWERS (1) Matthew Clark, BLDG MATLS (3) Lafarge Coppee, Pilkington Wnts., RMC, BUSINESS SERVS (1) Chubb, CONGLOMERATES (1) Hansons & Crosfield, CONTG & CONSTRCN (1) NSM, ELECTRICALS (7) Arlen, BICC Cap. Fin. 10¾pc Bds., Bulgin A, Critchley, Pifco, Do. A, TDK, ELECTRICITY (2) East Midlands, Seeboard, ELECTRONICS (7) Alba, Bowthorpe, Fairey, Farnell, GEC, Misys, Unitech, ENG GEN (7) Dyson (J & J), Do. A, FKI, Halma, Siebe, Senior, Weir, FOOD MANUF (1) Banks (Sidney C), FOOD RETAILING (1) Farepak, HEALTH & HSEHOLD (2) Swallowfield, Zeneca, HOTELS & LEIS (3) Ex Lands, Stanley, Thorn EMI, INSCE BROKERS (1) Lloyd Thompson, INSCE COMPOSITE (3) General Accident, Royal, Skandia, INV TRUSTS (96) MEDIA (3) Avesco, CIA, Capital Radio, MERCHANT BANKS (5) Kleinwort Benson, Schroders, Do. NV, Warburg (S.G.), Do. 6pc PL, MTL & MTL FORMING (3) GBE, Morris Ashby, Saville Gordon, MISC (4) Dudley Jenkins, Glenchewton, Holders Technology, UK Safety, MOTORS (8) Appleyard, Evans Halshaw, First Tech., Laird, Lex Service, Sanderson Murray Elder, T & N, Vardy (Reg), OIL & GAS (1) Shell Trans., OTHER FINCL (11) Caledonia Invs., Daiwa Securities, First Natl. Finance, Govett, INVESCO, Do. 9pc 1995-2000, M & G, Mercury Asset Mgmt., Mitsubishi, Prov. Financial, Union Discount, OTHER INDLS (2) Tex, Vinten, PACKG, PAPER & PRINTG (1) Smith (David S), PROP (15) Asda Prop., Brixton Est., Chesterfield, Evans of Leeds, Helical Bar, Land Securities, London Merchant, Do. Dfd., Do. 7¾pc Ln. 2000-05, Molyneux, Peel, St. Modwen, Slough Ests, Trafford Park, Warner Est., STORES (4) Essex Furniture, GUS A, Next, Roseby's, TELE NETWORKS (2) Cable & Wire., Do. 7pc Cv. 2006, TRANSPORT (4) Brit. Airways, Dawsongroup, P & O Dfd., Do. 5½pc Pfd., WATER (1) Mid Kent, PLANTATIONS (1) Bertam, MINES (14) Anglo Amer., Beatrix, Deelkraal, Elandsrand, Gwalia Cons., Kinross, Loraine, Normandy Poseidon, PosGold., Randfontein Ests., Southvaal, Vaal Reefs, Western Areas, Winkelhaak.
NEW LOWS (24).
AMERICANS (1) Beth. Steel, BLDG MATLS (1) Polypipe, CONTG & CONSTRCN (2) Andrews Sykes, McLaughlin & Harvey, ELECTRONICS (6) Domino Print., Ferranti, Linx Print., Prestwick, Radius, ENG GEN (1) Barry Wehmiller, FOOD MANUF (1) Northumbrian Foods, FOOD RETAILING (1) Low (Wm), HEALTH & HSEHOLD (1) Intercare, HOTELS & LEIS (2) Tomorrows Leisure, Wembley, INV TRUSTS (3) Drayton Eng. & Intl. Wrts., Environmental, London Amer. Growth, MTL & MTL FORMING (1) Johnson & Firth, MISC (1) Attwoods, MOTORS (1) Dixon, OIL & GAS (1) Alliance Res., PACKG, PAPER & PRINTG (1) St. Ives, PROP (2) Embassy Prop., Waterglade Intl.

FINANCIAL TIMES EQUITY INDICES

	July 29	July 28	July 27	July 26	July 23	Year ago	* High	* Low
Ordinary share	2307.8	2277.7	2277.3	2254.2	2234.6	1805.9	2307.8	2124.7
Ord. div. yield	4.00	4.05	4.05	4.09	4.13	5.11	4.52	4.00
Earning yld % full	4.76	4.82	4.82	4.87	4.92	7.26	6.38	4.76
P/E ratio net	26.89	26.54	26.54	26.28	26.04	17.41	26.89	19.40
P/E ratio nil	24.84	24.52	24.52	24.28	24.06	16.17	24.84	18.14
Gold Mines	235.8	229.8	225.5	214.9	218.4	91.0	239.3	60.0

*for 1993. Ordinary share index since compilation: high 2307.8 29/7/93 - low 49.4 26/6/40
Gold Mines index since compilation high: 734.7 15/2/83 - low 43.5 26/10/71
Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2278.5	2285.7	2286.3	2285.8	2286.1	2284.0	2285.7	2286.4	2301.4	2308.0	2278.5

Volume	July 29	July 28	July 27	July 26	July 23	Year ago
SEAQ Bargains	33,145	32,331	31,167	25,503	24,894	18,583
Equity Turnover(£m)†	-	1447.6	1580.0	900.2	1220.4	891.7
Equity Bargains†	-	39,273	32,672	29,083	28,933	20,406
Shares traded (mil)†	-	594.8	617.6	373.4	474.8	351.3

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
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EQUITY FUTURES AND OPTIONS TRADING

DERIVATIVES markets played a leading role in the strong advance in UK equities in the wake of yesterday's interest rate decisions in Germany, writes Terry Byland.

In stock index futures, the September contract on the FT-SE 100 led the underlying market above the important 2,900 barrier, responding quickly to evident pressures on the ERM currency network.

After showing a solid but fairly modest lead during the early part of the session, the September contract jumped to a 20-point premium against the underlying cash market as traders watched the developments in world foreign exchange centres. With fair value – the estimated premium allowing for carrying costs and dividend considerations – now at only 5 points, heavy arbitrage dealing commenced at yesterday's peak. Both locals and the big institutional investors were heavy sellers of the future and buyers of the underlying stocks.

By the close, the premium had steadied to around 11 against cash (five against fair value.) Turnover, however, was less exciting, with the contract recording only 6,500 at the official close. The contract closed at 2,926.

Traded options saw 36,070 contracts dealt, against 32,707 on Wednesday. The Footsie contract traded 8,112, compared with a previous 7,617. Individual stocks were headed by British Steel (with 7,970) and Hanson (2,505).

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2917.6 +33.4	3273.0 +28.2	1441.90 +15.02

[illegible]						

Hourly movements

[illegible]	

FT-SE Actuaries 350 Industry Baskets

[illegible]	

LONDON SHARE SERVICE

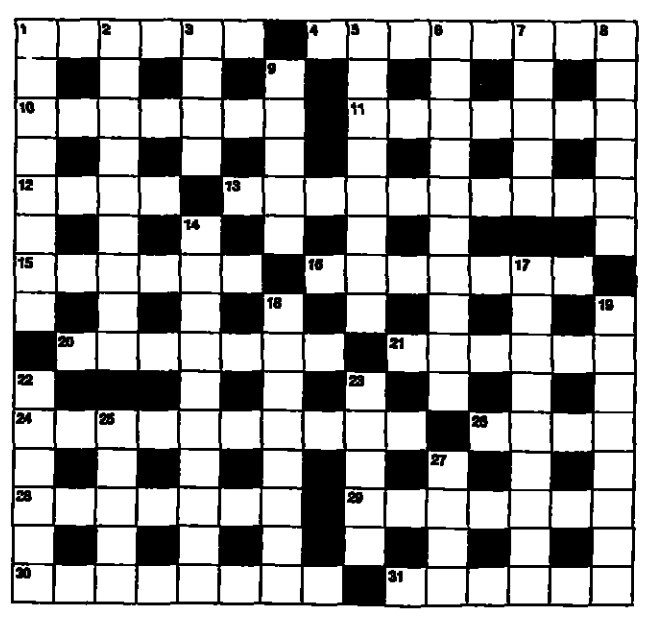
BRITISH FUNDS · BRITISH FUNDS - Cont. · BRITISH FUNDS - Cont. · OTHER FIXED INTEREST

[illegible]	

Continued on next page

CROSSWORD

No.8,215 Set by VIXEN

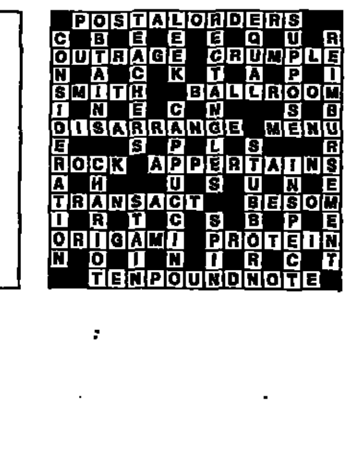


ACROSS
1 Report about queue forming (6)
4 Caught over draw, showing disdain for it (8)
10 Worrying allergy in the main (7)
11 Falling water-level (3-4)
12 Bound to be drawn (4)
13 Promise employment (10)
15 He'll make music, live or otherwise (6)
16 Doleful little sound (7)
20 Colourful bars (7)
21 The person plaguing the bank? (6)
24 The underworld leaning is spreading (10)
26 Book-work almost finished the boss! (4)
28 Not for the first time, rent free (7)
29 Attending to get something for nothing (7)
30 Share out one's small change among the dull-witted (8)
31 Serving men in a store can appear quite useless! (6)

DOWN
1 Being upset, rate evil member of the family (8)
2 Got to be dismissed! (6,3)
3 Fancy a little holiday at the seaside again (4)
5 Love talks about oriental functions (8)
6 Stop a noble acting as server (10)
7 Such material causes a doctor great annoyance (5)
8 Scoff in an effort to come to some agreement (6)
9 The city's only properly organised quarter (5)
14 Consider painstaking (10)
17 The clothing of the retired grew thin – a problem (9)
18 Goads sleepyhead, though it's really not called for (8)
19 Urban centre offering extended charging facilities (8)
22 Giving trouble, the leftist is much admired (6)
23 Birds to shoot (5)
25 Deals with drink in an ocean-going vessel (5)
27 Guided a Spartan queen (4)

JOTTER PAD

Solution 8,214



LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs		17xd	$-\frac{1}{8}$	20	15	14,227	2.6
Allegheny & W	▼	616p	-10	652p	389p	321.7	3.0
Amdahl		360p	+8	591p	302p	494.3	0.9
Amer Cyanamid		35		38	31	3,168	3.0
Amer Express		22xd		22	14	10,647	2.9
Amer T & T		42xd		43	33	56,[illegible]	1.9
Ameritech		53		54	46	23,[illegible]	4.4
BankAmerica		30xd		33	27	10,479	2.9
Bankers NY		52xd		52	42	4,198	3.8
Bell Atlantic		35	—	35	32	17,214	4.3
BellSouth		38	—	38	32	18,967	4.6
Bethlehem Steel	▼	9xd		13	9	893.8	—
Bowater		1372pxd	+13	1662p	1287p	487.2	1.8
CPC		27xd		34	26	4,127	3.0
California Engy		1234p	—	1479p	1086p	224.7	—
Chase Manhattan		21xd		24	17	3,307	3.6
Chrysler		28xd		32	21	8,382	1.3
Citicorp		21xd		22	13	7,896	—
Colgate-Palm		33xd		45	32	5,486	2.7
Cont'l Bank		1581p	-13	1877p	1278p	1,587	2.4
Dana		39xd		39	29	1,869	2.9
Data General		570p	—	861p	570p	167.3	—
Decom Inds	▼	120p	—	146p	109p	-	—
Dun & Brad		38		42	37	7,884	3.9
Eaton	h	30	—	31	25	2,113	2.3
Echlin		19xd		20	15	1,139	2.2
FPL		25xd		27	23	4,723	6.0
Ford Motor		34xd		38	28	16,982	1.8
Gen Elect		66xd		67	53	55,[illegible]	2.4
General Host	▼	552p	+6	723p	513p	—	4.1
Gillette		34xd		42	31	7,486	1.6
Hasbro		20	—	20	20	1,919	0.7

[illegible]

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

Europa Mnls	36	-2	37	15	16.9	-
Glencar Expl IE	11	----	12	6	2.03	-
Greenwich Res	$17\frac{1}{2}$	$-\frac{1}{2}$	$22\frac{1}{4}$	5	13.6	-
Hemlo Gold C$	£7½	----	£7½	£3½	725.7	1.2
Ivernia West IE	43	----	57	31	21.6	-
Kells Mnls IE	13	----	13	6	0.31	-
Kenmare	9	----	$13\frac{1}{2}$	6	9.01	-
Malinga Res	12	----	$25\frac{1}{2}$	10	1.32	-
Navan Res IE	88	----	160	25	15.0	-
5pc Ln Notes	$88\frac{1}{2}$	----	$94\frac{1}{4}$	25	15.6	-
Oryx Gold	$76\frac{1}{8}$	----	$76\frac{1}{8}$	47	-	-
Ovoca Res IE	7	----	$7\frac{1}{2}$	$3\frac{1}{2}$	0.49	-
RTZ	686	-7	709	607	6,879	3.9

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR 'Headline Earnings' draft proposals.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xcl ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring 081 643 7181 (open 24 hours including weekends) or fax 081 770 3822, quoting the code FT1632. [If calling from outside UK, dial +44 81 643 7181 or fax +44 81 770 3822] Reports will be sent the next working day, subject to availability. If faxing please remember to state the weekly changing FT code above and also your post code.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F
61 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Grofund American	5	153.8	[illegible]	163.3	-1.10	0.00
AIB Grofund Equity	6	206.9	210.1	222.3	+0.70	1.44
AIB Grofund Euro	5	168.7	170.4	179.4	-0.60	0.13
AIB Grofund Expt Balanced	3	100.3	102.3	105.6	-0.50	2.28
AIB Grofund Gilt	3	79.95	79.92	[illegible]	+0.18	5.31
AIB Grofund Japan	8	180.1	181.8	181.4	+2.20	0.00

AXA Equity & Law Unit Tst Mngrs (1200)H
Equity & Law Hse, Corpn St, Coventry 0203 553231

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
General Inc	5	430.2	431.8	459.4	+1.9	2.47
General Acc	6	472.9	473.7	504.0	+2.1	2.47
UK Growth Acc	6	312.9	317.0	337.2	+1.1	2.74
UK Growth Inc	6	221.7	224.7	239.1	+0.8	2.74
Higher Inc Acc	6	577.0	585.4	622.8	+4.1	3.87
Higher Inc Inc	6	350.8	355.6	378.4	+2.8	3.87
Gilts/Fxd Int Acc	5½	179.5	179.5	190.5	+0.1	8.01
Gilts/Fxd Int Inc	5½	94.09	94.09	99.34	+0.04	8.01
Nth America	6	248.6	252.9	269.1	+3.1	0.00
Far East	6	307.9	310.8	330.7	+5.4	0.23
Europe	6	226.2	230.9	245.7	+1.3	0.87
Brit Excell	6	63.98	63.98	68.07	+0.29	2.77
Brit Fndmtls Acc	6	88.13	89.45	95.16	+0.04	4.82
Brit Fndmtls Inc	6	68.37	69.39	73.82	+0.3	4.82
Global Opps	6	73.83	74.82	79.30	+0.74	0.00
Balanced Acc	6	47.95	48.54	51.64	+0.2	2.70
Balanced Inc	6	47.95	48.54	51.64	+0.2	2.70

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Brown Shipley UT Mngrs (1000)F
9-17 Perrymount Rd Haywards Hth 0444 412202

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Mngd Pfolio Inc	6	94.59	94.59	100.7	[illegible]	1.97
Mngd Pfolio Acc	6	178.8	178.8	190.4	[illegible]	–
UK General	6	157.7	157.7	168.7	[illegible]	2.65
European Inc	6	22.19	22.19	23.68	[illegible]	0.47
European Acc	6	22.92	22.92	24.67	[illegible]	–
Financial	6	132.7	132.7	141.9	[illegible]	2.66
Foundation	6	78.01	78.21	83.29	—	3.20
German	6	42.94	42.94	46.05	[illegible]	0.00
Growth Inc †(5-1)	5	28.27	28.27	30.19	[illegible]	2.91
Growth Acc †(5-1)	5	33.95	33.98	35.93	[illegible]	–
High Income	6	72.50	72.50xd	77.94	[illegible]	6.72
Income	6	128.4	130.7	139.8	[illegible]	3.93
Intl Income	6	95.54	95.54xd	101.8	[illegible]	4.60
Intl Growth ♣	6	35.07	36.07	37.34	[illegible]	0.21
Monthly Income	6	72.98	74.91	80.16	[illegible]	3.99
North American	6	109.6	105.6	112.5	[illegible]	0.19
Orient ♣	6	135.9	135.9	146.4	[illegible]	–
Recovery	6	40.30	41.91	45.05	[illegible]	2.49
Smaller Cos Acc	6	293.2	305.7	330.2	[illegible]	–
Smaller Cos Inc	6	170.6	177.8	192.1	[illegible]	1.13

Brycourt Unit Tst Mgmt Ltd (1400)F
Hesketh Hse, Portman Sq, W1H 0JR 071-935 6362

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Income Growth	7	189.4	189.4	194.4	—	3.96

For Buckmaster see Credit Suisse

Burrage Unit Tst Mangmt Ltd (0905)F
117 Fenchurch St, London EC3M 5AL 071-480 7216

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Short Dated Gilt	1¼	67.14	67.14	68.05	+0.10	5.71

CIS Unit Managers Ltd (1000)F
PO Box 105, Manchester M60 0AH 061-837 5060

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Environ	6	132.3	135.3xd	144.0	—	1.62
UK Growth	6	148.7	148.7	158.2	+0.3	2.12
UK Income	6	124.4	125.9	134.0	+0.4	4.14

For CS Fund Mngrs see City Financial UT

Marlborough Fund Managers Ltd (1630)F
57 Victoria Square, Bolton, BL1 1LA 0204 364942

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Managed Tst	5	66.73	66.80	71.06	+0.61	3.80

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (▼) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Standard Life Tst Mgmt Ltd (0730)H
9 George St, Edinburgh EH2 2XZ 0800 393777

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Managed Acc	5¼	44.47	44.47	47.25	+0.1	1.59
UK Equity Gth Acc	5¼	59.57	60.67	64.47	+0.2	1.40
UK Eq High Inc Inc	5¼	35.89	35.89	38.14	+0.1	3.80
UK Eq High Inc Acc	5¼	42.62	42.62	45.29	+0.1	3.80
UK Equity Gen Acc	5¼	54.23	54.23	58.69	+0.1	2.21
UK Equity Gen Inc	5¼	41.07	41.82	44.44	+0.1	2.21
UK Larger Cos Acc	F 7½	371.5	378.4	408.4	+1.1	3.75
UK Larger Cos Inc	F 7½	285.3	290.1	313.7	+0.9	3.75
Gilt & Fxd Int Inc	6¼	31.48	31.54	33.38	+0.2	6.25
Japan Lrg Co Acc	F 7½	281.0	285.8	310.3	—	1.40
Nth American Acc	5¼	42.84	43.09	45.78	-0.2	0.96
Far East Acc	5¼	57.21	57.21	60.79	+0.2	0.16
European Acc	5¼	41.97	41.97	44.60	+0.1	1.04

State Street Unit Trust Mngmt Ltd (1400)F
28 King Street, London SW1 6QW 071-344 7000

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Global A	5¼	[illegible]	3.611	3.838	—	1.24
US Equities (a)	5¼	$2.142	2.142	2.276	—	1.17
Far East Equities (a)	5¼	Y238.6	240.3	255.2	—	-
Japan Equities (a)	6¼	Y240.9	243.6	258.7	—	-
FT Europe (a)	5¼	113.2	113.2	120.3	—	2.17
FT North American (a)	5¼	$1.713	1.713	1.818	—	1.32
FT Japan (a)	6¼	Y242.2	242.7	257.8	—	-
FT Asia Ex Japan (a)	5¼	$1.875	1.893	2.011	—	1.52

Stewart Ivory Unit Tst Mgrs Ltd (1200)H
45 Charlotte Sq, Edinburgh 031-226 3271

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
American ¥	5	342.5	342.5	363.2	-0.5	0.32
(Accum Units) ¥	5	403.8	403.8	430.8	-0.8	0.32
British	5	948.7	948.7	1003.7	+2.0	4.06
(Accum Units)	5	1663.1	1663.1	1759.5	+3.5	4.06
Emerging Markets	5	109.7	109.0	116.1	-0.8	0.20
(Accum Units)	5	109.4	109.2	116.3	-0.8	0.20
European	5	396.8	396.8	422.0	-0.5	1.37
(Accum Units)	5	436.7	436.7	463.4	-0.5	1.37
Japan	5	152.8	152.8	162.2	+1.7	-
(Accum Units)	5	154.0	154.0	163.5	+1.7	-
New Pacific	5	301.2	303.0xd	322.7	-0.4	1.01
(Accum Units)	5	315.4	317.2xd	337.9	-0.4	1.01
Investment Tst	5	191.9	194.0	205.6	-0.8	1.73
(Accum Units)	5	214.2	216.5	229.4	-0.6	1.73
Mngd Equity	5	151.6	153.5xd	162.4	-0.7	1.55
Mngd Equity Acc	5	168.4	168.2	178.0	-0.8	1.55
Mngd Cash	0	95.63	95.63xd	95.63	+0.01	5.20
(Accum Units)	0	128.4	128.4	128.4	—	5.20
Majority Stg	1	99.82	99.82xd	100.82	+0.01	4.93
Majority Stg Acc	1	118.49	118.40	119.67	+0.01	4.93

Sun Alliance Unit Tst Mngmt Ltd (1200)F
Admin. 5 Rayleigh Rd, Hutton, Brentwood, Essex

INVESCO Asset Management Ltd
Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Asia & Australasia	£3.1940	3.2670	—	2.48
Japan	£2.2070	2.3180	—	0.08
Intl Mngd PFolio	£1.5570	1.6570	—	1.05
Mngd Fund (Acc)	£0.8080	0.8424	—	3.44
North American	£2.5220	2.5460	—	2.56
Smaller Companies	£1.4410	1.4970	—	3.85
UK Core	£1.0290	1.0459	—	4.52

Lazard Brothers & Co. Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Property Jul 12	£2025.0	2225.0	—	7.00
Inc Gth Prp Jul 12	£1440.6	1600.0	—	8.90

Lazard Investors Ltd ‡
Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Small Co's Jul 28	£5723.3	5317.3	—	2.48
European Jul 28	£716.4	723.3	—	1.52
American Jul 28	£436.1	440.1	—	1.46
Japan Jul 28	£595.2	602.4	—	0.50
Pacific Jul 28	£194.3	197.0	—	0.98
Managed Gth Jun 30	£128.39	140.10	—	3.7

Local Authorities Mutual Invest. Tst.*
2 Fore Street, London EC2Y 5AQ 071-588 1815

	Bid Price	Offer Price	+ or -	Yield Gross
Property Jun 30	178.50	182.15	—	8.74
Equity Jun 30	1003.56	1018.00	—	3.20

*Available only to Local Authorities

M & G Securities Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Charibond (2)		114.92	+0.5	9.38
(Accum Units)		789.51	+3.8	9.38
NAACIF (4)		47.04	+0.5	7.58

Merlin Jupiter Unit Trust Managers Ltd
Merlin Jupiter Exempt Trust

	Bid Price	Offer Price	+ or -	Yield Gross
UK Equity	£11.81	12.13	—	-

Morgan Grenfell Investment Funds Ltd
Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
UK Equity † Jul 27	184.1	189.1	—	2.80
UK Small Co † Jul 27	598.3	623.5	—	3.04
Fixed Interest † Jul 27	125.9	126.6	—	6.89
Intl Bond Jul 27	140.0	147.4	—	7.78

Morgan Stanley International

	Bid Price	Offer Price	+ or -	Yield Gross
UK Exempt NAV		£1380.27	—	-
Overseas Exempt NAV		£1301.07	—	-

Murray Johnstone UT Mngmt

INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Provident Mutual Life Assc. Assn. - Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Pension Funds				
Managed Ord	562.7	592.3	+1.8	-
Managed Init	396.6	417.4	+1.1	-
Equity Ord	869.0	914.7	+3.6	-
Equity Init	612.3	644.6	+2.4	-
Pen Ind Lkd Gilt Ord	226.0	237.9	-0.1	-
Pen Ind Lkd Gilt Init	166.3	175.1	-0.1	-
Overseas Equity Ord	400.0	421.1	+1	-
Overseas Equity Init	281.9	296.7	+0.8	-
Property Ord	294.2	309.7	+0.1	-
Property Init	207.3	218.2	-	-
Fixed Interest Ord	350.0	368.4	+0.2	-
Fixed Interest Init	246.6	259.6	+0.1	-
Deposit Ord	289.5	304.7	-	-
Deposit Init	204.0	214.7	-	-

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 071-405 9222

	Bid Price	Offer Price	+ or -	Yield Gross
Pruhond				
Managed Jul 28	304.9	317.7	-	-

Prudential Corporate Pension Funds
53 King's Road, Reading RG1 3AN 0734 494852

Scottish Amicable - Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Pension Funds				
Building Society	174.4	183.6	-	-
Managed (Init)	239.4	252.1	+1.30	-
Managed (Acc)	477.8	503.0	+2.70	-
Equity (Init)	267.9	282.1	+1.00	-
Equity (Acc)	534.7	562.9	+2.10	-
Property (Init)	150.6	158.6	-0.10	-
Property (Acc)	300.8	316.6	-	-
International (Init)	244.2	257.1	+2.80	-
International (Acc)	487.3	513.0	+5.60	-
Fixed Interest (Init)	232.7	245.0	+1.30	-
Fixed Interest (Acc)	464.4	488.9	+2.80	-
Cash (Init)	153.9	162.0	+0.10	-
Cash (Acc)	307.0	323.2	+0.10	-
Others				
Capital Guarantee Bond	100.8	106.2	+0.80	-

Scottish Equitable Life Assce. Soc.
28 St Andrew Sq, Edinburgh 031-556 9101

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

OFFSHORE INSURANCES

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Lloyds Bank (CI) U/T Mgrs.						
PO Box 195, St Helier, Jersey 0534 284242						
Lloyds Tst. Gilt	3½	210.350	10.420	10.780	+0.030	7.41
Dealing daily						
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26, St Helier, Jersey 0534 606000						
Intl Circuit Portfolio	6	£1.2582	1.2582	1.3352	-0.0007	0.00
Gilt	3	£1.0102	1.0102	1.0418	-0.0002	7.68
Prudential Fund Managers (Jersey) Ltd						
PO Box 103, St Helier, Jersey 0534 70000						
Prudential Currency Fd (Formerly Vanbrugh Currency Fd)						
Income (A & B)	5	212.7	212.7	223.4	-0.4	3.52
Growth (C & D)	5	320.4	320.4	338.5	-0.7	-
Royal Trust Jsy Fd Mngt Ltd (1400)F						
PO Box 428, St Helier, Jersey 0534 27441						
Govt Secs Fd	4	56.22	60.24	56.84	-0.01	7.52
Standard Bank Fund Mgmt (Jersey) Ltd						
PO Box 583, St Helier, Jersey CI 0534 67557						
International Bond	5	$-	15.98	16.90	+0.05	4.56
Sterling Bond	3	£-	9.905	10.31	+0.02	8.40
Sterling Cap		£-	42.73	42.75	—	5.30
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey 0534 503002						
TSB Offshore Investment Fund Ltd						
Stg Deposit Class	3	101.63	101.63	104.60	+0.01	5.00
Gilt & Fixed Interest	3	119.70	119.70	124.05	+0.36	7.45
Blue Chip & Gilt Edged	5	61.20	61.20	64.42	+0.19	3.54
International Bond	5	137.77	137.77	144.84	-0.08	4.00
UK Equity	5	255.14	254.64	270.58	+0.08	1.24
International Equity	6	184.89	187.51	197.38	+0.55	0.35
Far Eastern	5	174.99	178.33	187.72	+1.87	0.00
European	5	132.87	132.74	139.73	+0.30	0.00
Pan American	5	376.45	379.28	399.24	-0.76	0.00
TSB Gilt Fund Ltd						
Quarterly Share	3	107.72	107.72	111.24	+0.33	7.53
Monthly Share	3	106.07	106.97	110.46	+0.32	7.00

JERSEY (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Barclays Intl Funds				
Asian Selection Funds				
China	$7.614	8.100	-0.012	0.0

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Banque Scandinave a Luxembourg SA - Contd.						
Scandifond International Sicav						
Intl Emerging Markets	5	$-	1.07	1.14	—	-
Barclays Diversified Portfolio						
14 rue Aldringen L-1118 352 4799 2039						
IPB Deutschmark Reserve		DM-	31.69	-	-	-
IPB Sterling Reserve		£-	10.41	-	-	-
IPB Swiss Franc Reserve		SFr-	30.88	-	-	-
IPB US Dollar Reserve		$-	20.39	-	-	-
IPB European Bond		Ecu-	17.91	-	-	-
IPB North American Bond		$-	27.38	-	-	-
IPB Espana		Pta-	7810	-	-	-
IPB Europe		Ecu-	18.47	-	-	-
IPB Japan		Y-	29.18	-	-	-
IPB Pacific Rim		$-	22.84	-	-	-
IPB United Kingdom		£-	10.97	-	-	-
IPB United States		$-	21.25	-	-	-
Barclays Inv Funds (Luxembourg)						
41 Avenue de la Gare L-1611 010 352 404344						
Equity Funds						
European Equity	5¼	£-	0.934	0.994	-0.003	0.3
Intl Equity	5¼	£-	1.475	1.560	-0.007	0.5
North Am Eqty	5¼	$-	34.20	36.37	+0.039	0.3
Pacific Eq	4½	£-	8.387	8.792	+0.014	0.5
UK Equity	5¼	£-	1.139	1.200	-0.005	2.8
Bond Fund						
International Bond	3½	$-	99.66	104.20	-0.010	0.3
CMI Asset Management (Luxembourg) SA						
203 route d'Arlon, L-1150 Lux 010 352 458825						
CMI Managed Portfolio Investment Company (u)						
Safeguard Portfolio F		£-	1.271	1.354	+0.004	-
Growth Portfolio F		£-	1.153	1.229	+0.003	-
Enterprise Portfolio F		£-	1.112	1.184	-0.000	-
CMI Global Network Fund (u)						
Australasian Equity		A$-	13.550		+0.175	-
Benelux Equity		DG-	22.161		+0.022	-
Canadian Equity		C$-	9.027		+0.012	-
SE Asia Equity		$-	13.593		-0.004	0.35
French Equity		FFr-	63.857		+0.571	0.94
German Equity		DM-	19.390		-0.068	-
Iberian Equity		Pta-	788		+23.8	0.01
Irish Equity		I£-	4.456		+0.007	-
Italian Equity		L-	8083		+142	-
Japanese Equity		Y-	1370		-36.8	-
Nordic Equity		Dkr-	48.659		+0.034	-
Swiss Equity		SFr-	22.845		+0.314	-
UK Equity		£-	8.805		-0.002	1.11
US Equity		$-	13.882		+0.785	0.05
Japan Index Tracking		Y-	910		+34.0	-
UK Eqty Index Tracking		£-	6.284		-0.008	2.23

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Day of turmoil in the ERM

SEVERAL currencies in the European exchange rate mechanism were pushed close to their floors against the D-Mark yesterday, after the Bundesbank shocked the foreign exchange market by leaving its discount rate unchanged, *writes James Blitz.*

The Bundesbank's decision to leave its interest rate floor at 6.75 per cent came as a huge surprise to dealers, who had been led to think that an easing in German monetary policy yesterday would help France to cut its interest rates and ease the burden of recession.

The decision immediately led to heavy selling of non-D-Mark currencies and concerted intervention by 6 ERM central banks on the most hectic day of currency trading for nearly a year.

The French franc fell by 1 centime almost immediately after the news. Substantial intervention by the Bank of France and the Bundesbank held the franc to a London close of FFr3.417, but it slipped as low as FFr3.4262 after ERM trading closed at 4 pm.

The Danish crown fell below its ERM floor against the Dutch guilder at one stage. By the close of trading it was at DKr3.3900 to the D-Mark, fractionally above its ERM floor of DKr3.9016.

The Belgian franc fell to historic lows against the German currency, and was 122 basis points below the D-Mark in the ERM grid at the close of trading – destroying the informal 50 basis point band that the Belgians had declared.

Central bank intervention held the peseta and escudo above their ERM floors but, after official trading in the system had closed, the peseta was quoted as low as Pta82.4195 against a floor of Pta84.03.

The dollar reaped the benefits of being a safe haven in a crisis, closing at DM1.7345 from a previous DM1.7200. There were different assessments in the main London dealing rooms about the level of intervention. One leading analyst said that his bank had seen DM10bn of support for the French franc. He claimed to have seen gigantic intervention to support the peseta, to little effect.

Others estimates were more modest – but there was general agreement that the intervention in support of the franc had nearly matched the overall level of DM20bn seen last Thursday. The Dutch central bank reportedly described intervention to support the Danish krone as "massive."

There was widespread belief that the ERM would shortly collapse unless there was a realignment of the system in the next few days. One dealer said the showdown could come today, after fund managers had decided what action to take overnight.

But there were lingering concerns about whether to sell the French franc. Some New York based hedge funds remained absent last night. One analyst wondered whether the Bundesbank had left instructions for an automatic cut in the discount rate if the franc hits its floor.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jul 29	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Dutch Guilder	2.19672	2.18560	-0.51	3.34	42
D-Mark	1.94964	1.94354	-0.31	3.14	43
Irish Punt	0.808628	0.808682	0.00	2.81	16
Belgian Franc	40.2123	40.3044	0.23	2.58	6
French Franc	6.53883	6.63920	1.53	1.28	-66
Danish Krone	7.43679	7.56734	1.76	1.04	-64
Portuguese Escudo	192.854	198.230	2.79	0.02	-45
Spanish Peseta	154.250	158.588	2.81	0.00	-47

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

£ IN NEW YORK

Jul 29	Latest	Previous Close
£ Spot	1.4950-1.4960	1.4958 1.4965
1 month	0.37-0.36pm	0.37 0.36pm
3 months	0.98-0.97pm	0.98 0.97pm
12 months	2.75-2.68pm	2.68 2.63pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Jul 29	Previous
8.30 am	81.4	81.3
9.00 am	81.3	81.3
10.00 am	81.3	81.2
11.00 am	81.5	81.2
Noon	81.4	81.2
1.00 pm	81.4	81.2
2.00 pm	81.5	81.2
3.00 pm	81.7	81.2
4.00 pm	81.6	81.2

CURRENCY RATES

Jul 29	Bank ‡ rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.935537	0.758263
US Dollar	3.00	1.38885	1.13326
Canadian $	4.41	1.78913	1.45687
Austrian Sch	6.25	16.8877	13.6773
Belgian Franc	6.00	49.7919	40.3044
Danish Krone	9.25	9.34713	7.56734
D-Mark	6.75	2.39787	1.94354
Dutch Guilder	5.75	2.69688	2.18560
French Franc	10	8.17761	6.63920
Italian Lira	9.00	2238.83	1810.40
Japanese Yen	2.50	148.177	120.522
Norway Krone	-	10.2797	8.30863
Spanish Peseta	-	195.836	158.588
Swedish Krona	11.50	11.2798	9.12954
Swiss Franc	4.50	2.11142	1.71066
Greek Drach	19	N/A	267.427
Irish Punt	-	N/A	0.808662

‡ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland.
† European Commission Calculations.
* All SDR rates are for Jul 28

CURRENCY MOVEMENTS

Jul 29	Bank of England Index	Morgan ** Guaranty Changes %
Sterling	81.6	-28.26
U.S Dollar	66.3	-12.10
Canadian Dollar	94.0	-8.07
Austrian Schilling	113.1	+15.27
Belgian Franc	112.5	-0.09
Danish Krone	114.9	+9.62
D-Mark	121.8	+29.79
Swiss Franc	112.4	+21.37
Dutch Guilder	117.4	+19.62
French Franc	106.6	-8.44
Lira	80.4	-34.22
Yen	184.8	+127.29
Peseta	84.0	-34.82

Morgan Guaranty changes: average 1980-1982=100. Bank of England (Base Average 1985=100) **Rates are for Jul 28

OTHER CURRENCIES

Jul 29	£	$
Argentina	1.4915 - 1.4930	0.9980 - 0.9990
Australia	2.2105 - 2.2125	1.4795 - 1.4805
Brazil	105018 - 105027	70270.0 - 70278.0
Finland	8.6935 - 8.7740	5.8350 - 5.8550
Greece	350.150 - 357.250	234.350 - 238.150
Hong Kong	11.5915 - 11.6040	7.7550 - 7.7560
Iran	2345.00 - 2355.00	1580.00 - 1590.00
Korea(Sth)	1197.35 - 1216.65	803.50 - 809.90
Kuwait	0.44800 - 0.45000	0.30125 - 0.30175
Luxembourg	53.75 - 53.85	36.15 - 36.25
Malaysia	3.8325 - 3.8395	2.5640 - 2.5650
Mexico	4.6575 - 4.6605	3.1165 - 3.1185
N.Zealand	2.7105 - 2.7140	1.8135 - 1.8160
Saudi Ar	5.5985 - 5.6100	3.7485 - 3.7505
Singapore	2.4105 - 2.4165	1.6140 - 1.6150
S.Af (Cm)	5.0060 - 5.0170	3.3650 - 3.3665
S.Af (Fn)	6.7105 - 6.7255	4.4900 - 4.5000
Taiwan	40.20 - 40.35	26.90 - 27.00
U.A.E.	5.4840 - 5.4965	3.6715 - 3.6735

POUND SPOT - FORWARD AGAINST THE POUND

Jul 29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4855 - 1.5005	1.4860 - 1.4870	0.37-0.35cpm	2.91	1.01-0.98pm	2.68
Canada	1.9135 - 1.9270	1.9140 - 1.9150	0.34-0.28cpm	1.94	0.92-0.81pm	1.81
Netherlands	2.8815 - 2.9050	2.8925 - 2.9025	par-¼cdis	-0.52	¼-1⅛dis	-0.52
Belgium	53.05 - 53.90	53.75 - 53.85	6-18cdis	-2.68	9-40dis	-1.82
Denmark	9.9580 - 10.0480	10.0300 - 10.0400	N/A	N/A	N/A	N/A
Ireland	1.0610 - 1.0710	1.0695 - 1.0705	0.03-0.06cdis	-0.50	0.11-0.16dis	-0.50
Germany	2.5625 - 2.5830	2.5750 - 2.5800	¼-⅜pfdis	-1.45	⅝-¾dis	-1.07
Portugal	259.10 - 263.40	262.40 - 263.40	146-238cdis	-8.76	392-537dis	-7.07
Spain	207.40 - 212.05	211.35 - 211.65	112-144cdis	-7.26	289-338dis	-5.93
Italy	2379.20 - 2405.80	2392.00 - 2393.00	7-8lredis	-3.76	21-23dis	-3.68
Norway	10.9420 - 11.0560	11.0175 - 11.0275	⅛-⅞oredis	-0.54	⅞-2¼dis	-0.57
France	8.7290 - 8.8230	8.8025 - 8.8125	3-3⅝cdis	-4.51	6-6¼dis	-2.90
Sweden	12.0070 - 12.2550	12.2450 - 12.2550	1⅞-3¼oredis	-2.51	5⅞-7½dis	-2.18
Japan	157.25 - 159.50	157.25 - 158.25	⅜-¼ypm	2.38	1⅜-1pm	3.01
Austria	18.04 - 18.18	18.13 - 18.16	½-1¼grodis	-0.74	1⅜-3⅞dis	-0.58
Switzerland	2.2525 - 2.2785	2.2600 - 2.2700	¼-⅛cpm	0.99	¾-½pm	1.10
Ecu	1.3210 - 1.3330	1.3315 - 1.3325	0.29-0.34cdis	-2.84	0.69-0.78dis	-2.18

Commercial rates taken towards the end of London trading. Six-month forward dollar 1.70-1.65pm . 12 Month 2.77-2.67pm. Corrected figures for 28.7.93: Italy Close: 2384.25-2385.25. France Spread: 8.7125-8.7475: Close 8.7375-8.7475

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jul 29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4855 - 1.5005	1.4860 - 1.4870	0.37-0.35cpm	2.91	1.01-0.98pm	2.68
Ireland†	1.3860 - 1.4100	1.3895 - 1.3905	0.42-0.39cpm	3.50	1.14-1.09pm	3.21
Canada	1.2850 - 1.2880	1.2870 - 1.2880	0.09-0.11cdis	-0.93	0.26-0.30dis	-0.87
Netherlands	1.9240 - 1.9530	1.9495 - 1.9505	0.58-0.61cdis	-3.66	1.52-1.67dis	-3.27
Belgium	35.50 - 38.25	36.15 - 36.25	17.50-19.50cdis	-6.13	41.00-48.00dis	-4.81
Denmark	6.6665 - 6.7525	6.7475 - 6.7525	N/A	N/A	N/A	N/A
Germany	1.7110 - 1.7360	1.7340 - 1.7350	0.57-0.59pfdis	-3.98	1.59-1.61dis	-3.69
Portugal	174.75 - 177.30	177.15 - 177.25	162-175cdis	-11.41	405-450dis	-9.65
Spain	138.60 - 142.55	142.25 - 142.35	120-135cdis	-10.75	290-340dis	-8.85
Italy	1591.25 - 1616.00	1609.25 - 1609.75	8.80-9.20lredis	-6.71	25.00-26.00dis	-6.34
Norway	7.3235 - 7.4175	7.4125 - 7.4175	1.85-2.35oredis	-3.40	5.70-6.50dis	-3.29
France	5.8415 - 5.9300	5.9225 - 5.9275	3.70-4.70cdis	-8.51	8.20-9.70dis	-6.04
Sweden	8.0315 - 8.2425	8.2375 - 8.2425	3.65-4.25oredis	-6.75	9.40-10.40dis	-4.81
Japan	105.60 - 106.55	106.15 - 106.25	par-0.01ydis	-0.06	0.02-0.01pm	0.06
Austria	12.0750 - 12.1430	12.1380 - 12.1430	3.59-3.89grodis	-3.70	9.75-10.65dis	-3.36
Switzerland	1.5065 - 1.5265	1.5240 - 1.5250	0.21-0.23cdis	-1.73	0.55-0.60dis	-1.51
Ecu†	1.1150 - 1.1320	1.1175 - 1.1185	0.55-0.53cpm	5.80	1.37-1.35pm	4.87

Commercial rates taken towards the end of London trading. † UK, Ireland and Ecu are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

Jul 29	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	7½ - 5	6⅛ - 5⅞	6 1/16 - 5 15/16	5 15/16 - 5 13/16	5⅞ - 5¾	5 13/16 - 5 11/16
US Dollar	3 1/16 - 2 15/16	3⅛ - 3	3 3/16 - 3 1/16	3 5/16 - 3 3/16	3½ - 3⅜	3 13/16 - 3 11/16
Can. Dollar	4¼ - 4	4⅛ - 3⅞	4 3/16 - 3 15/16	4¼ - 4	4 7/16 - 4 3/16	5 - 4¾
Dutch Guilder	6⅞ - 6¾	6 13/16 - 6 11/16	6 11/16 - 6 9/16	6 7/16 - 5 15/16	6¼ - 6⅛	6 1/16 - 5 15/16
Swiss Franc	5 - 4¾	4⅞ - 4⅝	4¾ - 4⅝	4¾ - 4⅝	4⅝ - 4½	4 7/16 - 4 5/16
D-Mark	7 5/16 - 7 3/16	7 5/16 - 7 3/16	7 5/16 - 6 13/16	6 13/16 - 6 11/16	6¾ - 6⅝	6 7/16 - 6 5/16
French Franc	15 - 13	16 - 13	12½ - 11½	10¼ - 9¼	8¼ - 7¾	7⅛ - 6⅝
Italian Lira	11 - 9	9⅞ - 9½	9⅞ - 9⅜	9¼ - 8⅞	9½ - 9⅛	9⅜ - 9
Belgian Franc	9½ - 8¼	9½ - 9¼	9⅛ - 8⅝	8⅛ - 7⅞	7⅜ - 7⅛	7 - 6⅝
Yen	3 5/16 - 3¼	3 5/16 - 3¼	3 5/16 - 3¼	3¼ - 3 3/16	3⅛ - 3 1/16	3⅛ - 3 1/16
Danish Krone	11 - 10	40 - 30	25 - 20	16 - 13	11½ - 10	9½ - 8½
Asian $Sing	3½ - 2½	3½ - 2½	3½ - 2½	4 - 3	4 - 3	4¼ - 3¼
Spanish Peseta	20 - 15	16¼ - 15¼	14⅝ - 14⅛	12 13/16 - 12 9/16	11 1/16 - 10 13/16	10⅝ - 10⅛
Portuguese Esc	14⅛ - 13⅛	14¼ - 13¼	14¼ - 13¼	13½ - 12½	12 - 11	12 - 11

Long term Eurodollars: two years 4 1/16-4 3/16 per cent; three years 4⅞-4¼ per cent; four years 5⅛-5⅛ per cent; five years 5½-5⅜ per cent nominal. Short term rates are call for US Dollar and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Jul 29	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta	Ecu
£	1	1.487	2.578	157.8	8.808	2.265	2.898	2392.	1.915	53.80	211.5	1.332
$	0.672	1	1.734	106.1	5.923	1.523	1.949	1609	1.288	36.18	142.2	0.896
DM	0.388	0.577	1	61.21	3.417	0.879	1.124	927.9	0.743	20.87	82.04	0.517
YEN	6.337	9.423	16.34	1000.	55.82	14.35	18.37	15158	12.14	340.9	1340	8.441
F Fr.	1.135	1.688	2.927	179.2	10.	2.572	3.290	2716	2.174	61.08	240.1	1.512
S Fr.	0.442	0.657	1.138	69.67	3.889	1	1.279	1056	0.845	23.75	93.38	0.588
N Fl.	0.345	0.513	0.890	54.45	3.039	0.782	1	825.4	0.661	18.56	72.98	0.460
Lira	0.418	0.622	1.078	65.97	3.682	0.947	1.212	1000.	0.801	22.49	88.42	0.557
C $	0.522	0.777	1.346	82.40	4.599	1.183	1.513	1249	1	28.09	110.4	0.696
B Fr.	1.859	2.764	4.792	293.3	16.37	4.210	5.387	4446	3.559	100.	393.1	2.476
Pta	0.473	0.703	1.219	74.61	4.165	1.071	1.370	1131	0.905	25.44	100.	0.630
Ecu	0.751	1.116	1.935	118.5	6.613	1.700	2.176	1796	1.438	40.39	158.8	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS
£50,000 64ths of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
107	2-11	2-30	0-11	1-10
108	1-25	1-57	0-25	1-37
109	0-50	1-27	0-50	2-07
110	0-25	1-01	1-25	2-45
111	0-10	0-46	2-10	3-26
112	0-04	0-31	3-04	4-11
113	0-02	0-20	4-02	5-00
114	0-01	0-14	5-01	5-58

Estimated volume total, Calls 5223 Puts 1970
Previous day's open int. Calls 55990 Puts 45778

LIFFE EURO SWISS FRANC OPTIONS
SFR 1m points of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
9500	0.53	0.79	0.02	0.03
9525	0.30	0.57	0.04	0.06
9550	0.14	0.38	0.13	0.12
9575	0.06	0.23	0.30	0.22
9600	0.02	0.12	0.51	0.36
9625	0.01	0.05	0.75	0.55
9650	0	0.02	0.99	0.76
9675	0	0.01	1.24	1.00

Estimated volume total, Calls 0 Puts 0
Previous day's open int. Calls 2370 Puts 1040

LIFFE BUND FUTURES OPTIONS
DM250,000 points of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
9500	1.29	1.73	0.06	0.36
9550	0.88	1.37	0.15	0.50
9600	0.53	1.05	0.30	0.68
9650	0.28	0.81	0.55	0.94
9700	0.14	0.60	0.91	1.23
9750	0.07	0.43	1.34	1.56
9800	0.04	0.30	1.81	1.93
9850	0.02	0.21	2.29	2.34

Estimated volume total, Calls 6985 Puts 10829
Previous day's open int. Calls 121093 Puts 99331

LIFFE EUROMARK OPTIONS
DM1m points of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
9275	0.60	1.26	0.01	0.01
9300	0.36	1.02	0.02	0.02
9325	0.18	0.79	0.09	0.04
9350	0.08	0.58	0.24	0.08
9375	0.03	0.40	0.44	0.15
9400	0.02	0.25	0.68	0.25
9425	0.01	0.15	0.92	0.40
9450	0	0.08	1.16	0.58

Estimated volume total, Calls 12928 Puts 5251
Previous day's open int. Calls 144592 Puts 116047

LIFFE ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS
Lira 200m 100ths of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
1040	1.63	2.31	0.28	1.41
1045	1.24	2.02	0.39	1.62
1050	0.92	1.75	0.57	1.85
1055	0.65	1.51	0.80	2.11
1060	0.43	1.29	1.08	2.39
1065	0.28	1.10	1.43	2.70
1070	0.18	0.92	1.83	3.02
1075	0.11	0.77	2.26	3.37

Estimated volume total, Calls 3507 Puts 913
Previous day's open int. Calls 23551 Puts 16697

LIFFE SHORT STERLING OPTIONS
£500,000 points of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
9375	0.61	0.90	0.02	0.04
9400	0.38	0.68	0.04	0.07
9425	0.20	0.47	0.11	0.11
9450	0.09	0.32	0.25	0.21
9475	0.04	0.19	0.45	0.33
9500	0.02	0.10	0.68	0.49
9525	0.01	0.05	0.92	0.69
9550	0	0.02	1.16	0.91

Estimated volume total, Calls 4955 Puts 3576
Previous day's open int. Calls 155464 Puts 88146

LONDON (LIFFE)

9% NOTIONAL BRITISH GILT *
£50,000 32nds of 100%

	Close	High	Low	Prev.
Sep	109-00	109-12	108-06	108-14
Dec	108-10			107-24

Estimated volume 46302 (49557)
Previous day's open int. 93337 (90186)

6% NOTIONAL GERMAN GOVT. BOND *
DM250,000 100ths of 100%

	Close	High	Low	Prev.
Sep	96.23	96.30	95.89	95.91
Dec	96.37	96.41	96.05	96.05

Estimated volume 98229 (101250)
Previous day's open int. 194533 (187302)

6% NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL) DM250,000 100ths of 100% *

	Close	High	Low	Prev.
Sep	99.95	100.02	99.88	99.91
Dec	100.13			100.09

Estimated volume 6654 (3420)
Previous day's open int. 19330 (19654)

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

	Close	High	Low
Sep	110.35	110.44	110.29
Dec	109.43	109.50	109.50

Estimated volume 2068 (2742)
Traded exclusively on APT

12% NOTIONAL ITALIAN GOVT. BOND (BTP) *
LIRA 200m 100ths of 100%

	Close	High	Low	Prev.
Sep	105.35	105.80	104.75	104.89
Dec	104.90	105.00	104.40	104.49

Estimated volume 23193 (16426)
Previous day's open int. 57233 (56196)

10% NOTIONAL SPANISH GOVT. BOND (BONOS)
Pta 20m 100ths of 100%

	Close	High	Low	Prev.
Sep	97.75			97.75
Dec				

Estimated volume 0 (0)
Previous day's open int. 11 (11)

THREE MONTH STERLING *
£500,000 points of 100%

	Close	High	Low	Prev.
Sep	94.34	94.40	94.23	94.36
Dec	94.61	94.71	94.48	94.58
Mar	94.61	94.62	94.44	94.52
Jun	94.42	94.42	94.27	94.32
Sep	94.11	94.13	93.97	94.01

Est. Vol. (inc. figs. not shown) 82548 (112169)
Previous day's open int. 351687 (345587)

THREE MONTH EURODOLLAR *
$1m points of 100%

	Close	High	Low	Prev.
Sep	96.64	96.62	96.61	96.56
Dec	96.21	96.21	96.14	96.07
Mar	96.10	96.08	96.01	95.93
Jun	95.80	95.72	95.72	95.63

Est. Vol. (inc. figs. not shown) 904 (1204)
Previous day's open int. 14519 (14164)

THREE MONTH EUROMARK *
DM 1m points of 100%

	Close	High	Low	Prev.
Sep	93.34	93.44	93.28	93.40
Dec	94.00	94.02	93.88	94.00
Mar	94.45	94.45	94.30	94.40
Jun	94.66	94.66	94.50	94.57
Sep	94.67	94.66	94.55	94.60

Estimated volume 149323 (98419)
Previous day's open int. 664024 (664531)

THREE MONTH ECU
ECU 1m points of 100%

	Close	High	Low	Prev.
Sep	92.91	93.09	92.82	93.04
Dec	93.71	93.78	93.65	93.75
Mar	94.01	94.09	93.95	94.06
Jun	94.07	94.13	94.02	94.12

Estimated volume 4178 (3587)
Previous day's open int. 32269 (32459)

THREE MONTH EURO SWISS FRANC
SFR 1m points of 100%

	Close	High	Low	Prev.
Sep	95.51	95.53	95.43	95.48
Dec	95.76	95.77	95.73	95.74
Mar	95.92	95.90	95.88	95.90
Jun	95.90	95.88	95.88	95.88

Estimated volume 5870 (4493)
Previous day's open int. 46570 (46255)

THREE MONTH EUROLIRA INT. RATE
LIRA 1,000m points of 100%

	Close	High	Low	Prev.
Sep	90.87	91.00	90.75	90.87
Dec	91.40	91.60	91.32	91.38
Mar	91.72	91.74	91.62	91.70
Jun	91.84	91.85	91.77	91.82

Estimated volume 5324 (4750)
Previous day's open int. 77007 (76319)

FT-SE 100 INDEX *
£25 per full index point

	Close	High	Low	Prev.
Sep	2926.0	2935.0	2886.0	2894.0
Dec	2944.0	2918.0	2918.0	2912.5
Mar	2959.0	2933.0	2933.0	2927.0

Estimated volume 10995 (13423)
Previous day's open int. 48558 (48336)

* Contracts traded on APT. Closing prices shown.

CHICAGO

U.S. TREASURY BONDS (CBT) 8%
$100,000 32nds of 100%

	Latest	High	Low	Prev.
Sep	114-27	114-31	114-10	114-11
Dec	113-20	113-24	113-05	113-05
Mar	112-16	112-19	112-02	112-02
Jun	-	-	-	111-02
Sep	-	-	-	110-06
Dec	109-25	109-25	109-25	109-12
Mar	-	-	-	108-20
Jun	-	-	-	107-31
Sep	-	-	-	107-13
Dec	-	-	-	106-29

U.S. TREASURY BILLS (IMM)
$1m points of 100%

	Latest	High	Low	Prev.
Sep	96.85	96.86	96.83	96.82
Dec	96.63	96.65	96.59	96.56
Mar	96.42	96.43	96.42	96.34
Jun	-	-	-	96.11

BRITISH POUND (IMM)
$s per £

	Latest	High	Low	Prev.
Sep	1.4904	1.4936	1.4864	1.4898
Dec	1.4810	1.4850	1.4790	1.4814
Mar	-	-	-	1.4756

SWISS FRANC (IMM)
SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
Sep	0.6598	0.6617	0.6572	0.6601
Dec	0.6575	0.6600	0.6555	0.6583
Mar	-	-	-	0.6575

JAPANESE YEN (IMM)
Y12.5m $ per Y100

	Latest	High	Low	Prev.
Sep	0.9453	0.9482	0.9396	0.9436
Dec	0.9428	0.9466	0.9410	0.9445
Mar	-	-	-	0.9468
Jun	-	-	-	0.9492

DEUTSCHE MARK (IMM)
DM125,000 $ per DM

	Latest	High	Low	Prev.
Sep	0.5775	0.5806	0.5766	0.5793
Dec	0.5725	0.5748	0.5720	0.5747
Mar	-	-	-	0.5716
Jun	-	-	-	0.5694

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

	Latest	High	Low	Prev.
Sep	96.63	96.65	96.59	96.59
Dec	96.20	96.22	96.13	96.12
Mar	96.07	96.11	95.99	95.98
Jun	95.77	95.98	95.67	95.68
Sep	95.47	95.51	95.41	95.40
Dec	95.04	95.07	94.99	94.98
Mar	94.95	94.97	94.90	94.89
Jun	94.75	94.77	94.70	94.69

STANDARD & POORS 500 INDEX
$500 times index

	Latest	High	Low	Prev.
Sep	448.75	448.80	448.40	448.00
Dec	449.70	449.70	449.50	448.85
Mar	-	-	-	450.10
Jun	-	-	-	451.60

PHILADELPHIA SE £/$ OPTIONS
£31,250 (cents per £1)

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
1.425	6.75	6.83	7.14	7.54	0.03	0.44	1.04	2.16
1.450	4.42	4.83	5.35	6.00	0.15	0.93	1.73	2.98
1.475	2.46	3.15	3.83	4.61	0.63	1.74	2.67	4.06
1.500	1.04	1.93	2.63	3.48	1.70	2.81	3.95	5.40
1.525	0.34	1.08	1.75	2.56	3.45	4.55	5.54	6.95
1.550	0.07	0.54	1.11	1.88	5.66	6.50	7.37	8.64
1.575	0.02	0.22	0.69	1.32	8.04	8.62	9.33	10.56

Previous day's open int: Calls 681,284 Puts 620,360 (All currencies)
Previous day's volume: Calls 13,289 Puts 50,490 (All currencies)

PARIS

7 to 10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES

	Open	Sett price	Change	High	Low	† Yield	† Open int
September	120.20	120.48	+0.30	120.52	120.10	-	160,817
December	119.90	120.20	+0.34	120.20	119.86	-	28,727
March	122.36	126.66	+0.34	122.36	122.36	-	11,641

Estimated volume 102,856 † Total Open Interest 201,185

THREE-MONTH PIBOR FUTURES (MATIF) (Paris Interbank offered rate)

	Open	Sett price	Change	High	Low	† Yield	† Open int
September	92.83	92.76	-0.09	92.87	92.55	-	72,141
December	94.07	94.18	+0.09	94.25	93.94	-	54,522
March	94.60	94.69	+0.07	94.75	94.58	-	37,654
June	94.76	94.78	-0.01	94.85	94.72	-	33,158

Estimated volume 78,554 † Total Open Interest 218,426

CAC-40 FUTURES (MATIF) Stock Index

	Open	Sett price	Change	High	Low	† Yield	† Open int
July	1980.0	2042.0	+56.0	2044.0	1979.0	-	13,977
August	1996.0	2058.0	+57.5	2064.0	1994.0	-	19,496
September	2007.0	2070.0	+57.5	2065.0	2007.0	-	18,808
December	2090.0	2102.0	+57.5	2090.0	2090.0	-	8,165

Estimated volume 42,464 † Total Open Interest 64,100

ECU BOND (MATIF)

	Open	Sett price	Change	High	Low	† Yield	† Open int
September	114.80	114.48	-0.32	114.54	114.22	-	12,092

Estimated volume 3,144 † Total Open Interest 12,092

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls August	Calls September	Calls December	Puts August	Puts September	Puts December
118	-	-	2.60	-	0.06	0.50
119	-	1.62	-	-	0.14	0.74
120	0.49	0.86	1.30	-	0.38	-
121	-	0.36	0.83	-	0.92	-
122	-	0.12	0.53	-	-	-
Open int	21,877	135,800	56,682	32,806	180,874	41,557

Estimated volume 55,290 † Total Open Interest 502,378
† All Yield & Open Interest figures are for the previous day.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4865	1.4829	1.4765	1.4697	1.4593

MONEY MARKETS

European rates havoc

European money markets were dazed yesterday by the Bundesbank's surprise decision not to lower the German discount rate, *writes Stephanie Flanders.*

At the eye of the storm, Paris traders tried to gauge the prospects for French interest rates in the absence of a significiant German monetary easing. French overnight money rates immediately rose to 15 per cent, while three month rates finished at around 8.50 per cent, 25 basis points up on the day.

Trading in French franc futures took the full brunt of the market's uncertainty. The September Pibor contract plummeted 20 basis points immediately following the Bundesbank announcement, discounting the sizeable French interest rate cuts which would follow the franc's ejection from the ERM.

September francs recovered somewhat during the afternoon, closing 9 basis points down in Paris at 92.76. However, in after-hours trading, the September Pibor contract leapt once again, gaining around 30 basis points in a further bout of market confusion.

Elsewhere, the Dutch central bank announced a 25 basis point cut in three of its interest rates, but it too left the key special advances money market rate unchanged at 6.60 per cent.

Belgian money market rates rose in the face of heavy pressure on the Belgian currency. Three month money rates rose to 8.25 per cent in the middle of the day, up from the previous day's close of 7.80 per cent.

In London, the news from the ERM initially seemed to dampen hopes of a pre-autumn cut in UK interest rates. But the market later seemed to decide that the case for UK rates did not rest and fall on events in Germany.

"Even if the Bundesbank had cut the discount rate," said one London-based analyst, "we would not have had a cut in Britain. Expectations have got carried away over the past few days, but it's domestic economic and political factors which determine the UK authorities' policy, and these do not point to a cut before the end of the summer."

Supporting the isolationist view of events in UK markets, trading in sterling futures continued to reflect a belief in lower UK base rates in the months ahead. The December sterling contract was most dramatically affected, ending the day at around 94.75, up some 17 basis points on the day. September sterling consolidated the previous day's gains, closing 3 basis points higher at 94.39.

FT LONDON INTERBANK FIXING

(11.00 a.m. Jul 29)	3 months US dollars		6 months US Dollars
bid 3 3/16	offer 3 5/16	bid 3 5/16	offer 3 7/16

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

Lunchtime					
Prime rate	6	One month	3.19	Three year	4.42
Broker loan rate	5	Two month	3.02	Five year	5.15
Fed.funds	3	Three month	3.10	Seven year	5.45
Fed.funds at intervention	-	Six month	3.28	10-year	5.82
		One year	3.53	30-year	6.60
		Two year	4.13		

Jul 29	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	6.90-7.10	6.95-7.05	6.90-7.00	6.85-6.95	6.65-6.75	7.75
Paris	9 13/16-10¼	9.4-10.0	-	8¼-8¾	-	6.75
Zurich	4⅝-4⅞	4⅝-4¼	-	4 7/16-4 11/16	-	-
Amsterdam	-	-	-	-	-	-
Tokyo	3 7/16-3 5/16	-	-	-	-	-
Milan	9¾-10	9⅝-9¾	-	9 7/16-9⅝	-	-
Brussels	-	-	-	-	-	-
Dublin	6-6⅛	6⅜-6 7/16	6 7/16-6 7/16	6 7/16-6 7/16	6¼-6⅝	-

LONDON MONEY RATES

Jul 29	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	7½	6⅛	6 1/16	6	5⅞	5⅞
Interbank Bid	5	5⅞	5 15/16	5⅞	5¾	5¾
Sterling CDs	-	-	5 15/16	5 15/16	5¾	5¾
Local Authority Deps.	5½	6	5 15/16	5 13/16	5 13/16	5 13/16
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	7	6¼	-	-	-	-
Company Deposits	-	-	-	-	-	-
Finance House Deposits	-	-	5 13/16	5 15/16	5 13/16	5 13/16
Treasury Bills (Buy)	-	-	5 13/16	5¾	5⅞	-
Bank Bills (Buy)	-	-	5 23/32	5 11/16	6 1/32	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	3.04	3.10	3.27	3.54
SDR Linked Dep. Offer	-	-	4 7/16	4¼	4⅛	4⅛
SDR Linked Dep. Bid	-	-	4 5/16	4⅛	4¼	4¼
ECU Linked Dep. Offer	-	-	9	8⅞	7 13/16	7⅛
ECU Linked Dep. Bid	-	-	8½	7 13/16	7 7/16	6⅝

Treasury Bills (sell); one-month 5⅝ per cent; three months 5 9/16 per cent; six months 5 9/16 per cent; Bank Bills (sell): one-month 5 21/32 per cent; three months 5⅝ per cent; Treasury Bills; Average tender rate of discount 5.1338 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day July 30 ,1993 . Agreed rates for period Aug 25, 1993 to Sep 25, , 1993 Schemes II & III: 7.28 p.c. Reference rate for period July 1, 1993 to July 30 , 1993, Scheme IV&V: 6.009 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 6pc from July 1 , 1993:Bank Deposit Rate for sums at 7 days notice 6⅛ p.c.:Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 2¼ p.c.; one-three months 5¼ p.c.; three-six months 5 p.c.; six-nine months 4¾ p.c.; nine-twelve months 4½ p.c.: Under £100,000 2¼ p.c. from Jan.27, 1993. Deposits withdrawn for cash 1¼p.c.

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	Mount Banking	6
Allied Trust Bank	6	Duncan Lawrie	6	NatWestminster	6
AIB Bank	6	Equatorial Bank plc	6	Nykredit Mortgage Bnk	6.5
●Henry Ansbacher	6	Exeter Bank Limited	7	●Rea Brothers	6
B & C Merchant Bank	13	Financial & Gen Bank	7	Roxburghe Bank Ltd	6
Bank of Baroda	6	●Robert Fleming & Co	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	Girobank	6	●Smith & Williman Secs	6
Bank of Cyprus	6	●Guinness Mahon	6	Standard Chartered	6
Bank of Ireland	6	Habib Bank AG Zurich	6	TSB	6
Bank of India	6	●Hambros Bank	6	●United Bk of Kuwait	6
Bank of Scotland	6	Heritable & Gen Inv Bk.	6	Unity Trust Bank Plc	6
Barclays Bank	6	●Hill Samuel	6	Western Trust	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Whiteaway Laidlaw	6
●Brown Shipley	6	Hongkong & Shanghai	6	Wimbledon & Sth West	7
CL Bank Nederland	6	Julian Hodge Bank	6	Yorkshire Bank	6
Citibank NA	6	●Leopold Joseph & Sons	6		
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk.	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6				

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKET FUNDS

Money Market Trust Funds

The Co-operative Bank - Cash [illegible]
Coutts & Co [illegible]
CAF Money Management Co Ltd [illegible]
The COIF Charities Deposit Account [illegible]
Cent. Bd. of Fin. of Church of England [illegible]
Dao Heng Bank (London) PLC Premier Acc [illegible]
Gartmore Money Management Ltd [illegible]
Davenham 1st Plc-Davenham 800 Acc [illegible]
Fidelity Money Market Account [illegible]

Money Market Bank Accounts

AIB Bank High Interest Cheque Account [illegible]
Aitken Hume Bank plc [illegible]
Allied Trust Bank Ltd [illegible]
American Express Bank Ltd [illegible]
Bank of Ireland High Interest Cheque Acc [illegible]
Bank of Scotland [illegible]
Bank of Wales [illegible]
Barclays Select [illegible]
Barclays Prime Account H.I.C.A. [illegible]
Brown Shipley & Co Ltd [illegible]
Caledonia Bank Plc [illegible]
Cater Allen Ltd [illegible]
Charterhouse Bank Limited [illegible]
Clydesdale Bank Flexible Solution Acc [illegible]
Confederation Bank Limited [illegible]
The Co-operative Bank [illegible]
Gartmore Money Management Ltd [illegible]
Halifax Bldg Soc Asset Reserve Cheque Acc [illegible]
Julian Hodge Bank Ltd [illegible]
Humberclyde Finance Group [illegible]
Leopold Joseph & Sons Limited [illegible]
Kleinwort Benson Private Bank [illegible]
Lloyds Bank - Investment Account [illegible]
Midland Bank plc [illegible]
Nationwide Bldg Soc [illegible]
Portman Bldg Soc [illegible]
Provincial Bank PLC [illegible]
Royal Bank of Scotland plc [illegible]
Save & Prosper/Robert Fleming [illegible]
Tyndall Bank plc [illegible]
UIC Trust Limited [illegible]
United Dominions Trust Ltd [illegible]
J. Henry Schroder Wagg & Co Ltd [illegible]
Western Trust High Interest Cheque Acc [illegible]
Woolwich & South West Finance PLC [illegible]

WORLD STOCK MARKETS

CANADA

Sales	Stock	High	Low	Close	Chng
50	Celanese	u$54	53	53	-1
28	CntCpital	26	26	26	-4
75050	Cinepx Odn	365	350	355	+5
8100	Cntrl Fd A	$7⅛	7⅛	7⅛	+⅛
795	Cominco	$14⅞	14¼	14⅞	
107200	Copdalog	295	295	295	-15
545	Corel Sys	$24¼	23⅛	24¼	+1⅛
7000	CoscanDev	194	185	185	-5
2	CrownX A	320	320	320	+5
201	Labatt	$22⅞	22⅝	22¾	+⅛
1509770	Lac Minls	$13	12	13	+¾
19	Lafarge	$19⅞	19¾	19¾	-¼
83590	Laidlaw A x	$8¾	8¾	8¾	
190	Laidlaw B x	$8¾	8½	8⅝	+⅛
143200	Laurent Bk	$18¼	17½	18¼	
3100	Laurent Gp	$6½	6⅜	6½	
37	Lawson Mar	$9⅝	9⅝	9⅝	-¼
350	Rothmans	$101	101	101	-1
47208	RoyalBkCan	$27⅞	27¾	27¾	-⅛
89	Ryl Oak Mn	$7¾	7	7¾	+⅝
520	StLawCm A	$7¼	7¼	7¼	+¼
29	Sceptrefs	$10⅛	10⅛	10⅛	-¼
75	ScottPaper	$11¼	11¼	11¼	
2800	Scotts Hos	$7¾	7¾	7¾	
285	Seagram Co	$33	32¾	32⅞	

MONTREAL

Sales	Stock	High	Low	Close	Chng
167613	NatBk Can	$10⅜	10¼	10¼	
500	Quebecor A	$20⅛	20	20	
16300	Teleglobe	$17⅛	17	17	+⅛
8470	Unvia	$7¾	7⅝	7¾	+⅛
23030	Videotron	$22¾	22⅝	22¾	

Total Sales 11,060,500 shares

INDICES

NEW YORK

DOW JONES	July 28	July 27	July 26	July 23	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3553.45	3565.46	3567.70	3546.74	3567.70 (26/7)	3241.95 (20/1)	3567.70 (26/7/93)	41.22 (2/7/32)
Home Bonds	107.82	107.78	107.49	107.48	107.82 (22/7)	103.49 (11/1)	501.97 (27/4/93)	54.99 (1/10/81)
Transport	1580.81	1581.12	1594.80	1582.45	1683.06 (16/4)	1453.84 (4/1)	1683.06 (15/4/93)	12.32 (8/7/32)
Utilities	248.81	248.35	248.88	247.10	248.88 (26/7)	217.14 (8/1)	248.88 (26/7/93)	10.50 (8/4/32)

DJ Indl. Day's High 3588.38 (3604.86) Low 3524.38 (3533.80) (Theoretical♦)
Day's High 3566.02 (3583.90) Low 3545.34 (3549.25) (Actual♦)

STANDARD AND POOR'S	July 28	July 27	July 26	July 23	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	447.19	448.24	449.09	447.10	456.33 (10/3)	429.05 (8/1)	456.33 (10/3/93)	4.40 (1/6/32)
Industrials♥	506.87	508.28	509.36	507.33	524.99 (10/3)	498.48 (26/4)	524.99 (10/3/93)	3.62 (21/6/32)
Financial	45.67	45.83	45.79	45.50	46.67 (13/4)	39.89 (8/1)	46.67 (13/4/93)	8.64 (1/10/74)
NYSE Composite	247.86	248.34	248.68	247.46	251.36 (10/3)	236.21 (8/1)	251.36 (10/3/93)	4.46 (25/4/42)
Amex Mkt. Value	434.78	434.77	433.76	432.05	440.95 (4/6)	395.84 (8/1)	440.95 (4/6/93)	29.31 (9/12/72)
NASDAQ Composite	705.58	701.00	704.54	700.24	712.49 (14/7)	645.87 (26/4)	712.49 (14/7/93)	54.87 (31/10/72)

	Jul 23	Jul 16	Jul 9	year ago (approx.)
Dow Industrial Div. Yield	2.93	2.95	2.93	3.17
	Jul 21	Jul 14	July 7	year ago (approx.)
S & P Industrial div. yield	2.55	2.52	2.56	2.68
S & P Indl. P/E ratio	25.09	25.37	24.89	26.50

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Closing price	Change on day
Merck	12,458,500	30¾	- 1⅞
Chrysler	9,475,500	42⅝	- 2
Wml Co In	8,037,600	30¾	+ ⅝
IBM	4,214,400	44	- 1⅜
Beth Steel	3,321,100	14¾	- ⅛
Am T & T	2,887,200	23⅞	—
Glaxo	2,805,700	10½	+ ¼
RJR Nabisco	2,728,500	5¼	—
Borden	2,438,700	16	- 1¼
Diagnostek	2,337,500	10½	+ ¾

TRADING ACTIVITY

† Volume (Millions)	July 28	July 27	July 26
New York SE	269.791	252.525	222.579
Amex	15.098	14.688	15.936
NASDAQ	(a)	271.489	226.148
NYSE			
Issues Traded	2,574	2,564	2,588
Rises	917	839	1,225
Falls	986	1,050	757
Unchanged	671	675	606
New Highs	80	76	84
New Lows	50	39	33

CANADA

TORONTO	July 28	July 27	July 26	July 23	1993 HIGH	1993 LOW
Metals & Minerals	2920.94	2924.74	2883.27	2854.82	3020.48 (2/7)	2743.31 (21/1)
Composite	3923.10	3911.60	3869.50	3830.20	3997.72 (2/7)	3275.80 (21/1)
MONTREAL Portfolio	1870.54	1861.81	1848.59	1820.98	1939.10 (25/6)	1720.97 (21/1)

Base values of all Indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

	July 29	July 28	July 27	July 26	1993 HIGH	1993 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1828.5	1818.4	1814.9	1795.7	1829.50 (29/7)	1495.00 (13/1)
All Mining (1/1/80)	858.6	846.0	841.3	822.7	859.60 (29/7)	584.70 (13/1)
AUSTRIA						
Credit Aktien (30/12/84)	388.49	387.39	391.33	385.81	391.33 (27/7)	300.28 (14/1)
Traded Index (2/1/91)	969.81	969.47	976.12	962.42	976.12 (27/7)	712.08 (15/1)
BELGIUM						
BEL20 (1/1/91)	1300.01	1301.67	1301.49	1307.18	1331.53 (15/7)	1125.46 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	313.74	309.98	309.51	310.39	314.85 (30/6)	261.90 (4/1)
FINLAND						
HEX General (28/12/90)	1277.5	1278.0	1251.0	1226.4	1278.00 (28/7)	843.10 (22/1)
FRANCE						
CAC General (31/12/81)	544.91	548.75	549.42	547.68	549.42 (27/7)	471.24 (13/1)
CAC 40 (31/12/87)	2036.00	1989.53	1998.11	2006.22	2036.00 (29/7)	1772.21 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	709.00	712.63	715.20	716.22	716.22 (26/7)	586.92 (14/1)
Commerzbank (1/12/53)	2015.8	2025.6	2031.6	2035.8	2035.80 (26/7)	1694.30 (14/1)
DAX (30/12/87)	1833.70	1833.91	1845.23	1854.52	1854.52 (26/7)	1518.50 (13/1)
HONG KONG						
Hang Seng Bank (31/7/64)	6899.93	6903.21	6865.98	6858.08	7447.24 (27/5)	5437.80 (4/1)
IRELAND						
ISEQ Overall (4/1/88)	1636.95	1635.56	1628.95	1624.33	1639.76 (15/7)	1191.19 (11/1)
ITALY						
Banca Com. Ital. (1972)	561.24	558.18	556.68	549.33	567.74 (20/7)	446.33 (8/1)
MIB General (4/1/93)	1237.0	1230.0	1227.0	1211.0	1238.00 (20/7)	992.00 (11/1)
JAPAN						
Nikkei (16/5/49)	20456.65	19829.58	19891.39	19822.08	21076.00 (3/6)	16287.45 (25/1)
Tokyo SE (Topix) (4/1/68)	1669.05	1622.28	1625.45	1615.55	1676.13 (3/6)	1250.06 (25/1)
2nd Section (4/1/68)	2217.28	2203.48	2204.30	2201.51	2384.97 (7/6)	1651.72 (26/1)
MALAYSIA						
KLSE Composite (4/4/86)	764.70	763.97	755.57	738.35	764.70 (29/7)	614.28 (13/1)
NETHERLANDS						
CBS Tll.Rtn.Gen.(End 1983)	359.9	357.8	356.1	355.4	359.90 (29/7)	295.70 (4/1)
CBS All Shr (End 1983)	236.2	234.8	233.7	233.2	236.20 (29/7)	198.60 (13/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	856.30	860.13	859.28	853.33	860.13 (28/7)	689.93 (27/1)
PHILIPPINES						
Manila Comp (2/1/85)	1738.34	1740.97	1738.38	1704.10	1740.97 (28/7)	1270.88 (4/1)
SINGAPORE						
SES All-Singapore (2/4/75)	454.17	452.52	453.86	454.63	468.48 (31/5)	394.10 (13/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1988.0♥	1970.0	1917.0	1853.0	2092.00 (7/7)	775.80 (5/1)
JSE Industrial (28/9/78)	4573.0♥	4526.0	4512.0	4515.0	4719.00 (6/7)	4033.00 (19/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	743.21	749.03	750.48	745.07	777.25 (9/6)	605.93 (8/3)
SPAIN						
Madrid SE (30/12/85)	268.18	263.87	262.35	261.64	268.18 (29/7)	215.80 (4/1)
SWEDEN						
Affarsvariden Gen. (1/2/37)	1194.1	1185.6	1173.2	1171.2	1194.10 (29/7)	879.10 (28/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	1032.1	1035.0	1034.8	1032.2	1046.80 (13/7)	904.80 (11/1)
SBC General (1/4/87)	824.5	825.2	821.6	819.8	827.90 (13/7)	678.70 (11/1)
TAIWAN**						
Weighted Price (30/6/66)	4022.62	4019.63	4070.44	4083.87	5013.28 (7/4)	3088.43 (9/1)
THAILAND						
Bangkok SET (30/4/75)	924.62	908.36	893.14	890.54	998.44 (25/1)	818.84 (1/6)
WORLD						
M.S. Capital Intl.(1/1/70) $	575.5*	571.7	571.4	569.4	576.30 (3/6)	488.80 (13/1)
Euro Top-100 (26/6/90)	1058.94	1050.36	1047.52	1045.58	1058.94 (29/7)	862.73 (13/1)

**Saturday July 24: Taiwan Weighted Price 4030.42, Korea Comp Ex 741.83.
♥ Subject to official recalculation. *Calculated at 15.00 GMT.

Base values of all Indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000, JSE Gold – 255.7, JSE 20 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

Thursday, July 29, 1993

	Stocks Traded	Closing Prices	Change on day
Kawasaki Steel	6.8m	345	
Nippon Steel	5.6m	372	+2
Nikkatsu	5.4m	18	+2
NEC Corp	4.5m	1,000	+27
Kaken Pharm	4.3m	1,780	+80
Nippon Kayaku	3.6m	901	+12
Sumitomo Mtl Min	3.3m	1,050	+20
Itochu Corp	3.0m	567	+13
Nippon Chemiphar	2.8m	1,350	+120
SXL Corp	2.8m	1,340	+60

4 pm close July 29

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
14 5/8	11 1/2	AAR Corp	0.48	3.6	662	63	13 1/2	13 1/4	13 1/4	-1/8
29 3/8	20	A L Labs A	0.18	0.8	41	205	24 1/8	23 1/4	23 3/8	-1/2
63 7/8	54 5/8	AMP Inc	1.60	2.5	23	7799	u64 3/4	62 1/2	64	+2 1/4
72 3/4	55 1/2	AMR			16	3380	65 3/4	64 1/2	64 3/4	
2 3/4	1 3/4	ARX			14	11	2 3/8	2 1/8	2 3/8	
51 1/2	28 7/8	ASA	2.00	4.1	32	1362	49 5/8	47 3/4	49	+1 1/8
30 3/4	22 3/8	Abbott Lab	0.68	2.7	15	7255	25 5/8	24 7/8	24 7/8	-3/8
12 5/8	9 7/8	Abitibi Pr	0.50	4.9	4	3	10 1/8	d9 7/8	10 1/8	+1/4
14 1/4	8 1/4	Acpencain			227	90	13 5/8	13 5/8	13 5/8	
32	25 1/2	ACE Ltd	0.40	1.4		163	28 1/2	28 1/8	28 3/8	+1/8
12	10 3/4	ACM Gvt In	0.96	8.3		214	11 5/8	11 1/2	11 5/8	
10	9 1/8	ACM GvOpp	0.80	8.1		58	d10	9 7/8	9 7/8	
9 7/8	8 3/4	ACM Gvt Sp	0.80	8.3		186	9 5/8	9 1/2	9 5/8	+1/8
11 5/8	10 1/2	ACM Gvt Se x	0.96	8.6		225	11 1/8	11	11 1/8	
11 5/8	9 5/8	ACM Man	1.06	9.6		187	11 3/8	11 1/8	11 1/4	
9 3/8	8 5/8	ACM Managd	0.72	7.9		109	9 1/8	9 1/8	9 1/8	
12 3/8	7 3/8	Acme Cleve	0.44	4.0	14	131	10 7/8	10 1/2	10 7/8	+3/8
9 1/4	6 1/2	Acme Elect			254	5	7 5/8	7 5/8	7 5/8	-1/8
24 3/4	18 3/8	Acordia	0.44	1.9	13	28	23 3/8	23 1/4	23 3/8	+1/8
16	10 3/8	Acuson			13	887	12 5/8	12	12 1/2	+3/8
22 1/4	19 5/8	Adams Expr	0.48	2.3	1	70	20 5/8	20 5/8	20 5/8	-1/8
66	45 1/2	Ad Micro	3.00	5.6		21	53 3/4	53 1/2	53 1/2	-1/2
32 3/4	17 5/8	Ad Micro P	3.00	12.6	9	3336	24 1/8	23 3/4	23 7/8	-1/4
7 3/4	5 1/2	Advest Grp	0.16	2.7	10	54	5 7/8	5 3/4	5 7/8	+1/8
24 3/4	17 3/4	Advo Inc	0.09	0.5	18	267	17 1/2	d16 3/4	17	-3/4
49 3/8	41 1/8	Aegon ADR	2.95	6.6	9	77	45 1/4	44 1/2	45	+3/8
[illegible]										
32 3/4	26 1/4	Baxter	1.00	3.8	14	7966	26 1/2	d26	26 1/2	+1/8
29 7/8	24 3/8	Bay St Gas	1.42	5.0	15	42	28 3/4	28 1/8	28 5/8	+5/8
25	22	Ba Tr 1838	1.72	7.1		2	24 1/4	24 1/4	24 1/4	
24 1/4	15 3/4	Bear Strns	0.60	2.5	8	1409	24 1/8	23 5/8	23 7/8	-1/8
50	45 1/2	BearStPfA	2.77	5.7		5	49	48	49	
24 3/4	20 1/2	Bearings	0.64	3.0	73	38	21 5/8	21 3/8	21 3/8	-1/8
25 1/2	19 3/4	Beckman In	0.36	1.6	13	908	22 1/8	22	22	+1/8

Continued on next page

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4 pm close July 29

NYSE COMPOSITE PRICES

Continued from previous page

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

NASDAQ NATIONAL MARKET

4 pm close July 29

- A - B - C - D - E - F - G - H - I - J - K - L - M - N - O - P - Q - R - S - T - U - V - W - X - Y - Z -

AMEX COMPOSITE PRICES

4 pm close July 29

AMERICA

Bond rally, program trading lift US stocks

Wall Street

A BIG bond market rally, spurred by news of weaker-than-expected economic growth, and heavy program-trading combined to lift US share prices to new record highs yesterday morning, *writes Patrick Harverson in New York.*

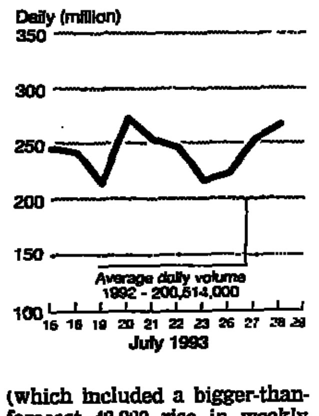
At 1 pm, the Dow Jones Industrial Average was up 18.44 at 3,571.89, almost five points above its previous all-time high. The more broadly based Standard & Poor's 500 was 3.09 firmer at 450.28, while the Amex composite was up 0.79 at 435.79, and the Nasdaq composite up 2.64 at 708.23. Trading volume on the NYSE was 156m shares by 1 pm.

Although the day's main economic news was not encouraging, the sharp drop in bond yields that followed was good for sentiment. The commerce department's announcement that GDP grew by 1.6 per cent in the second quarter surprised analysts, who had been expecting growth of more than 2 per cent.

The unexpected weakness in economic growth sparked heavy buying of government securities, which pushed the yield on the 30-year bond down to 6.58 per cent. The drop in yields delighted equity investors, who have been worried lately by rising bond yields, and after a hesitant start led to a rush of demand for stocks around mid-morning. The upward movement in prices was exacerbated by a spate of buy programs.

The gains were achieved in spite of the bad economic news

NYSE volume



(which included a bigger-than-forecast 43,000 rise in weekly jobless claims), and the disappointing overnight news that the German central bank had decided not to lower its main interest rate.

Motor stocks were firmer. General Motors climbed $½ to $47½ after the company announced second quarter earnings of $889.1m, a big improvement on a year earlier, when following a big restructuring charge GM posted losses of $703.2m. Ford and Chrsyler, which reported stronger profits earlier this week, were also markedly higher, up $1 at $53 and $1⅝ at $44, respectively.

Insurance stocks were up on good earnings news. American International Group put on $2⅝ at $47⅝, Transamerica firmed $1¼ to $55¼, and Lincoln National added $2 at $40.

ITT climbed $1¼ to $88⅝ after the diversified conglomerate reported a 152 per cent increase in second quarter profits to $267m.

Drug stocks, which rose sharply on Wednesday on news of several major alliances in the global pharmaceuticals business, fell back. Johnson&Johnson fell $⅞ to $36⅝, Merck gave up $¼ at $30½, Schering-Plough fell $1⅝ to $63⅛ and Pfizer eased $⅞ to $62⅞.

Canada

TORONTO was stronger at midday with a 18.61 gain in the TSE-300 composite index to 3,941.71. The financial services sub-index was up 18.20 at 3,048.50 but oil and gass was off 8.91 at 4,508.42.

Volume at noon was 19m shares.

ASIA PACIFIC

Political developments help Nikkei to advance 3.2%

Tokyo

EQUITIES finished sharply higher, with the Nikkei average registering an advance of 627.27, or 3.16 per cent, at 20,456.85, *Reuters reports from Tokyo.*

Brokers said sentiment was boosted by hopes of a rate cut and also media reports on the likely policies of an opposition coalition that hopes to form the next government.

The Topix index of all first section stocks rose 37.77, or 2.3 per cent, to 1,660.05. In London the ISE/Nikkei 50 index firmed 1.51 to 1,261.12.

After the market had closed the opposition party leaders announced that they had selected Mr Morihiro Hosokawa as candidate for prime minister. Parliament is due to convene next week in special session to endorse the new prime minister.

Although the market gathered pace, many investors remained on the sidelines and trading was mostly driven by dealers, with the recently strong yen keeping investors cautious.

Many new investment trust stock funds are being launched in the next few days, improving supply and demand conditions in the market.

Equities opened steady, were firmer in early trade on buying by investment trusts, and extended gains throughout the day on arbitrage-linked buying. The Nikkei achieved a day's high of 20,473.75 in late afternoon trade.

Turnover was about 350m shares, compared to 188m on Wednesday. Advancing issues outscored declines by a ratio of 13-to-one, with 1,004 higher, 77 lower and 79 stocks finishing unchanged.

Nippon Chemiphar moved ahead Y120 to Y1,350 as investors thought its shares were still undervalued.

Banks were higher on hopes of easier credit. Dai-Ichi Kangyo Bank appreciated Y110 to Y2,350, Tokyo Bank Y60 to Y1,730 and Sumitomo Bank Y60 to Y2,400.

NTT rose Y25,000 to Y912,000 on hopes that the new coalition government will introduce plans to boost the NTT share price.

Mitsubishi Heavy strengthened Y18 to Y662 and Kawasaki Heavy put on Y10 at Y419 on media speculation that they were asked to make trains using magnetic levitation. Both companies denied the media report.

Electric power shares were firmer on the yen's recent rally. Tokyo Electic Power ended Y100 ahead at Y3,720.

Roundup

THE Pacific Rim presented a mixed picture.

AUSTRALIA closed higher but below the day's best level, helped by mounting expectations of an interest rate cut in the wake of June trade figures, and firm gold stocks and blue chips. The All Ordinaries index added 10.1 at 1,828.5.

Interest picked up again in Woolworths, with 7m shares changing hands. The stock rose a cent to A$2.84.

SINGAPORE was led forward by a technical rebound in Sembawang Shipyard and light buying in some index stocks. The Straits Times Industrial index rose 12.81 to 1,807.02.

Sembawang added 20 cents at S$11.10, while rumours of a share placement helped Cerebos to rise 30 cents to S$6.05.

NEW ZEALAND was propelled to another three-year high by further heavy trade in Telecom, and the NZSE-40 capital index gained 17.34 at 1,782.31.

Telecom was volatile after reporting first-quarter profits of NZ$118.2m, a strong outlook for the year and a proposed share buy-back. The stock finished 8 cents ahead at NZ$3.54.

BOMBAY surged ahead in hectic midsession trading, spurred by speculators and foreign institutional investors after a victory for Prime Minister Narasimha Rao in a no-confidence vote late the previous day. The BSE index finished 83 stronger at 2,232.67.

KARACHI continued to retreat, with the KSE-100 index losing 29.72 to 1,374.18. It was the second consecutive day of falls after a nine-day period of rapidly rising prices.

TAIWAN finished mixed amid profit-taking after early speculative gains were recorded on hopes of easier monetary policy. The weighted index, which rose more than 30 points at one stage, ended just 2.99 up at 4,022.62. Turnover shrank to a slow T$13.58bn from Wednesday's T$17.41bn.

Acer, which said estimated after-tax group profits rose to US$16m in the first half of 1993 from US$2m a year earlier, firmed 10 cents to T$25.40.

HONG KONG finished narrowly mixed, with the Hang Seng index 3.28 easier at 6,899.93. MANILA paused after its record-breaking run and the composite index slipped 2.63 to 1,738.34. SEOUL saw a wave of institutional selling which left the composite index 5.82 lower at 743.21.

EUROPE

Paris greets Buba news with 2.3% gain

SPECULATION over the future of the ERM intensified yesterday after the Bundesbank disappointed, surprised and baffled the markets by leaving the discount rate unchanged.

Immediate reaction from many European strategists and analysts was not as confused as the signals emanating from Frankfurt, which was probably due to a split decision among Bundesbank council members.

Mr David Roche of Morgan Stanley said that the Bundesbank had chosen to focus on domestic economic difficulties rather than the wider European vista, and that the break-up of the ERM was now likely before October.

Mr Andrew Bell of BZW believed that there was now a 55-60 per cent chance that the ERM would be suspended in the coming days, with the reason perhaps being portrayed as the unique difficulties of the German economy.

However, Mr Patrick Shields, a German analyst at NatWest Securities, believed that while there was intense pressure on the franc it would hold its course within the ERM, although French interest rates would very likely have to rise under this scenario. He noted that a franc devaluation would be damaging to Germany's balance of trade since France was a major export market.

Some commentators, including Mr James Cornish at NatWest Securities, suggested that while the Bundesbank had officially "gone on holiday" until the end of August, there was precedent for a discount rate cut in the interim if it became even clearer that action had to be taken to prevent the ERM disintegrating.

PARIS gathered pace after the news from Frankfurt and the CAC-40 index closed at its highest level since May 1992, rising 46.47 or 2.34 per cent to 2,036.00. Turnover also accelerated to FFr4.8bn from FFr2.8bn.

The market now believes that devaluation is imminent and that interest rates will be substantially eased in the near future.

Among the day's movers were the interest rate sensitives: Peugeot gained FFr7 to FFr636, St Gobain, FFr23 to FFr572, Elf Aquitaine FFr10.10 to FFr426.00 and Bouygues FFr26 to FFr709.

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

July 29 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1239.41	1240.00	1240.83	1240.49	1240.54	1241.57	1243.01	1242.42
FT-SE Eurotrack 200	1299.05	1299.87	1300.93	1300.85	1299.60	1303.93	1304.99	1308.99

	Jul 28	Jul 27	Jul 26	Jul 23	Jul 22
FT-SE Eurotrack 100	1238.35	1238.95	1240.21	1224.42	1217.14
FT-SE Eurotrack 200	1297.56	1297.42	1294.91	1279.96	1275.93

Base value 1000 (26/10/90) High/day: 100 - 1243.66; 200 - 1308.99 Low/day: 100 - 1237.34 200 - 1294.61.

MADRID surged to a year's high as the peseta tumbled on the foreign exchanges, and the general index rose 4.31 or 1.6 per cent to 268.8.

"Demand picked up after the Bundesbank's announcement as people started betting on a break-up of the ERM and the buying became quite exaggerated towards the close," said Mr David Joel of Madrid brokers, FG.

Buying was broadly based, with the banking and building sectors in particular demand.

Argentaria rose Pta400 or 8 per cent to Pta5,400 in the wake of its 14.6 per cent rise in first half pre-tax profits.

LISBON opened firmly on continued demand for blue chip issues. But, said Mr Paulo Araujo of Schroders, the market did not react well to the Bundesbank's action and buying slowed sharply. The BTA index finished 17.6 higher at 2,229.9.

FRANKFURT did little ahead of the council meeting and not a great deal in the post-bourse, the DAX index closing just 0.21 lower at 1,833.70 in turnover of DM6bn.

Commerzbank, reporting a 16 per cent gain in first half operating profit, put on 30 pfg to DM316.00. VW remained under pressure, down DM3.70 at DM356.00.

AMSTERDAM strengthened, the CBS Tendency index climbing 1.7 or 1.4 per cent to 121.3. DSM which fell 8 per cent after posting a sharp fall in second quarter profit and forecasting a disappointing third quarter, ended the day 90 cents up at Fl 95.40.

BRUSSELS rebounded late in the session wiping out losses seen im immediate response to the German news. The Bel-20 index shed 1.66 to 1,300.01.

MILAN opened firm, with the mood helped by indications that the government plans to press ahead with electoral reform in response to the bombings earlier in the week. But prices gave up some of their advance and the Comit index finished up 3.06 at 561.34.

Fiat fell L118 to L6,548 with one large seller said to be active. Telecoms were firm as progress was seen with the privatisation programme. Sip added L54 to L2,363 in volume of 15.7m shares while Stet added L83 to L3,896 in volume of 7.6m shares. ZURICH eased, with profit-taking in blue chips leaving the SMI index 8.3 lower at 2,400.6.

Johannesburg faces up to golden question

The rally in gold shares has been driven by offshore investors, writes **Philip Gawith**

Mr Donald Gordon, chairman of the Liberty Life group, enjoys a reputation in Johannesburg as an investment guru.

His announcement last week, therefore, that Liberty would raise R1bn ($222m) by selling off 20 per cent of its strategic investments has been cause for some concern. The reasoning is that if "Donny" is lessening his equity exposure to the tune of R1bn, then this is an unequivocal bear signal.

This cautionary note comes against the background of an equity market deprived of the certainties of the recent past when it could be assumed that financial and industrial stocks would outperform, while gold did nothing. The judgment calls are now much more difficult.

Whatever uncertainties the future holds, the past has at least brought a warm glow to the hearts of gold bulls who, at last, have had cause to celebrate after years in the wilderness. Driven by the improved dollar and rand bullion price, the performance of the Johannesburg Stock Exchange (JSE) this year has been dominated by the 150 per cent gain in the All Gold index to its current level of 1,988, from 786 at the start of the year.

On the back of this, the overall index has climbed some 25 per cent to 4,087, while the industrials index has hardly moved, rising only 4.9 per cent to 4,573, from 4,359 in January.

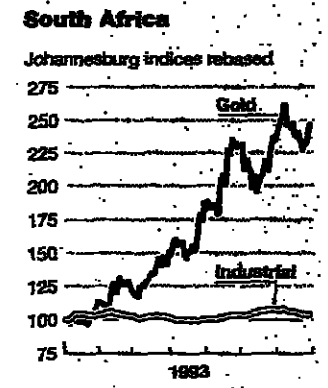
The gold rally has been music in the ears of brokers, who have profited from the higher turnover of shares. In June, for example, the value of shares traded on the JSE was R3.52bn, 77 per cent higher than a year ago. This has boosted the JSE's dismal liquidity ratio to an annualised level of 6.63 per cent, compared with 4.42 per cent a year ago. Any investor with exposure to gold is also sure to have prospered handsomely.

The hard question is where gold goes to from here. The JSE view is broadly positive, although analysts are cautious not to predict the gold price rushing ahead to $500/oz; nor do they believe the recent price strength is a hoax about to dissolve before their eyes. Mr Rob Lee of the Board of Executors, a financial services institution, says that given the sort of dividend increases which can be anticipated, the current level of gold prices can be justified.

Looking ahead, he is bullish about the prospects for the dollar price of gold. Given an inevitable deterioration in the value of the rand – the one fundamental all pundits seem agreed on – he believes gold shares "will go a lot higher than they are now".

Given the near vertical ascent in the bullion price, and share prices, many anticipate a short-term correction before the market moves further ahead. Against this it is argued that the recent run in share prices has been largely driven by US general funds. Local

South Africa



Source: FT Graphite

institutions and European investors have been on the sidelines or selling. These investors, the reasoning goes, may well use any weakness in share prices as an excuse to get into the market, thus underpinning equity prices. If this is so, it will take a sharp drop in the bullion price to crack share prices.

Certainly local institutions appear underweight in gold. Whereas the All Gold index accounts for 10 per cent of the overall JSE capitalisation, reports from the 23 general equity unit trusts for the June quarter reveal that 16 of them have 5 per cent or less gold in their portfolio. These figures confirm that the buying has been coming from offshore. JSE figures released two weeks ago show that, following years of being net sellers of equities, non-residents have bought more than R2bn of shares this year, most of which will have gone into gold.

As big a headache as the outlook for gold is the high level of the industrial market, currently on a dividend yield of 2.5 per cent. This level has only twice been reached before: during the 1969 and 1987 crashes. The market appears to be discounting some fairly robust profits growth, but this is not a view supported by economic fundamentals.

Predictions for 1993 GDP growth are in the -0.5 to 0.5 per cent range and 1994 is seen as offering only modest growth prospects. Corporate profits are thus likely to remain under pressure for some time, though the downward trend in interest rates will offer some respite.

As for the politics, the market is either taking a very sanguine view of negotiations, or believes that equities will be the best place to be, should the situation unravel. In all, a better time to be a broker than a fund manager.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	WEDNESDAY JULY 28 1993 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY JULY 27 1993 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1993 High	1993 Low	Year ago (approx)
Australia (69)	139.16	−0.1	138.23	92.63	124.44	136.84	+0.1	3.67	139.30	138.60	93.64	124.96	136.75	144.19	117.39	141.85
Austria (17)	160.32	−0.2	159.26	106.72	143.37	143.11	−0.6	1.36	160.59	159.80	107.96	144.07	143.98	160.59	131.16	154.86
Belgium (42)	147.31	+0.5	146.33	98.04	131.72	129.14	−0.1	4.43	146.60	145.87	98.55	131.51	129.25	156.76	131.19	146.58
Canada (108)	125.39	+0.2	124.56	83.46	112.12	116.54	+0.2	2.89	125.12	124.50	84.11	112.24	116.33	130.38	111.41	127.94
Denmark (33)	209.57	+1.0	208.18	139.50	187.41	190.62	+0.5	1.18	207.58	206.55	139.55	186.22	189.65	225.64	185.11	239.81
Finland (23)	101.27	+3.5	100.60	67.41	90.56	123.59	+3.4	0.99	97.82	97.33	65.76	87.75	119.58	101.27	65.50	70.58
France (97)	152.42	+0.3	151.41	101.45	136.29	140.05	−0.3	3.27	152.03	151.27	102.20	136.37	140.52	167.36	142.72	159.60
Germany (60)	116.06	−0.3	115.29	77.26	103.78	103.78	−0.6	2.04	116.37	115.79	78.24	104.39	104.39	117.10	101.59	120.17
Hong Kong (55)	277.27	+0.3	275.43	184.56	247.96	276.06	+0.3	3.44	276.32	274.94	185.75	247.89	275.13	301.61	218.82	243.77
Ireland (15)	159.55	+0.8	158.49	106.20	142.68	159.96	+0.3	3.45	158.34	157.55	106.45	142.04	159.48	170.40	129.28	158.26
Italy (70)	69.39	+0.6	68.93	46.18	62.05	82.80	+0.0	1.96	69.00	68.66	46.38	61.90	82.81	72.82	53.78	82.06
Japan (470)	153.29	+0.8	152.27	102.03	137.09	102.03	−0.2	0.81	152.13	151.38	102.27	136.49	102.27	155.96	100.75	90.27
Malaysia (69)	348.68	+1.0	346.36	232.08	311.79	344.11	+0.9	1.97	345.09	343.37	231.98	309.56	340.90	349.34	251.66	239.20
Mexico (19)	1603.64	−0.1	1582.99	1067.41	1434.01	5470.39	−0.1	0.90	1605.15	1597.17	1079.07	1439.95	5473.80	1725.61	1410.30	1368.15
Netherland (24)	167.94	+0.8	166.83	111.78	150.18	148.28	+0.5	3.70	166.66	165.83	112.03	149.51	147.56	172.75	150.39	161.34
New Zealand (13)	53.71	+1.6	53.35	35.75	48.03	51.74	+1.9	4.31	52.88	52.62	35.55	47.44	50.79	53.71	40.56	45.42
Norway (22)	159.42	+0.6	158.36	106.11	142.56	159.09	+0.4	1.66	158.44	157.65	106.51	142.14	158.49	168.21	137.71	170.84
Singapore (38)	250.06	−1.0	248.40	166.45	223.61	185.87	−1.3	1.86	252.63	251.38	169.84	226.63	188.25	262.72	207.04	203.78
South Africa (60)	208.74	+1.2	207.36	138.94	186.66	203.72	+0.8	2.52	206.21	205.19	138.63	184.99	202.15	211.77	144.72	200.72
Spain (44)	118.78	+1.2	117.99	79.06	106.21	124.99	+0.8	4.68	117.41	116.82	78.93	105.32	123.94	132.82	115.23	139.77
Sweden (36)	173.16	+1.2	172.01	115.26	154.85	207.00	+1.1	1.63	171.03	170.18	114.98	153.43	204.77	184.06	149.70	189.44
Switzerland (50)	128.28	+0.9	127.42	85.39	114.72	120.44	+0.5	1.80	127.15	126.52	85.48	114.08	119.86	129.36	108.91	112.38
United Kingdom (218)	175.09	+0.3	173.93	116.53	156.55	173.93	+0.2	3.99	174.50	173.63	117.30	156.52	173.63	181.99	162.00	184.26
USA (520)	183.00	−0.2	181.79	121.82	163.65	183.00	−0.2	2.81	183.41	182.49	123.30	164.54	183.41	186.27	175.38	171.94
Europe (751)	145.05	+0.4	144.08	96.55	129.71	139.67	+0.1	3.19	144.44	143.72	97.10	129.58	139.53	149.02	133.92	148.27
Nordic (114)	164.12	+1.4	163.02	109.24	146.76	171.02	+1.2	1.45	161.84	161.04	108.80	145.19	169.05	171.77	142.13	176.25
Pacific Basin (714)	156.44	+0.7	155.40	104.13	139.90	108.51	−0.2	1.08	155.36	154.58	104.44	139.37	108.71	159.07	105.88	97.29
Euro-Pacific (1465)	151.65	+0.6	150.64	100.93	135.60	121.46	−0.1	1.91	150.76	150.01	101.34	135.24	121.54	154.05	117.26	117.81
North America (628)	179.42	−0.2	178.23	119.44	160.47	178.48	−0.2	2.81	179.78	178.89	120.87	161.31	178.85	182.38	171.51	169.19
Europe Ex. UK (533)	126.22	+0.5	125.38	84.03	112.88	119.70	+0.1	2.66	125.62	124.99	84.46	112.71	119.63	128.65	112.51	126.49
Pacific Ex. Japan (244)	188.10	+0.2	186.85	125.22	168.22	173.93	+0.3	3.18	187.64	186.71	126.16	168.35	173.46	194.08	152.70	166.55
World Ex. US (1652)	152.26	+0.6	151.25	101.35	136.16	123.53	+0.0	1.94	151.38	150.62	101.77	135.80	123.59	154.27	118.51	119.92
World Ex. UK (1954)	160.22	+0.3	159.18	106.65	143.29	138.70	−0.1	2.09	159.79	158.99	107.42	143.36	138.89	161.34	134.22	132.09
World Ex. So. Af. (2112)	161.32	+0.3	160.25	107.39	144.27	141.43	−0.1	2.26	160.89	160.09	108.17	144.35	141.60	162.74	137.29	136.15
World Ex. Japan (1702)	167.93	+0.1	166.81	111.79	150.19	164.25	−0.1	2.94	167.83	167.00	112.84	150.58	164.34	170.05	157.47	162.12
The World Index (2172)	161.55	+0.3	160.48	107.53	144.47	141.95	−0.1	2.27	161.10	160.30	108.31	144.53	142.11	162.86	137.32	136.54

Constituent change 29/7/93: Name change: RJI Ltd. to Tasman Properties Ltd. (New Zealand). Latest prices were unavailable for this edition.

FINANCIAL TIMES SURVEY

Japan will play a bigger world role but will become harder to deal with: INSIDE

JAPAN

Nintendo versus Sega: war of the giants for sales of computer games: INSIDE

Friday July 30 1993

Pervasive problems in Japan's financial system have culminated in the worst economic and political difficulties for 20 years. They coincide with a profound rethink of Japan's world role after the end of the Cold War, writes **Charles Leadbeater**

This crisis is different

JAPAN has been through a cathartic year of crisis. Consensus, stability and long term planning are widely thought to be the hallmarks of Japanese society, the cultural underpinnings of its economic success.

Yet the last year has shown with a vengeance that crisis and upheaval are just powerful engines of change and innovation, forcing companies and political parties, bureaucrats and middle managers to reassess traditional methods and ways of thinking.

Japan has been through periods of upheaval and crisis before, largely brought on by economic shocks delivered from the outside. In the early 1970s the revaluation of the yen, followed by the oil shocks, forced painful economic restructuring. In the 1980s the lowering of the US dollar placed similar strains upon Japan's competitiveness.

There is something different about the present upheaval. Japan's economic difficulties – it is in the midst of the most protracted downturn for 30 years – were in large part brought on by domestic factors, particularly the weakness of the financial sectors, after the collapse of the speculative bubble economy of soaring land and stock prices in the late 1980s. The current downturn is not the result of a sharp shock to the international competitiveness of Japanese manufacturing. It is the result of pervasive problems with the country's financial system.

But it is not simply that the nature of Japan's economic difficulties differ from past crises. The scale and scope of this upheaval differs, for its stretches from finance and manufacturing to the political system and Japan's foreign relations as well as reaching into Japan's social values.

The political upheavals which led to the Liberal Democratic Party losing its overall majority in the July 18 general election for the first time in almost 40 years – and the consequent decision of Prime Minister Miyazawa to resign – are just the latest and the most dramatic example of changes which are underway in almost every area of Japanese society.

If there is one explanation for this complex, uncertain process of change it is that Japan is maturing. It is, in fits and starts, at times reluctantly, shedding an image of itself as a society which has to be dedicated to economic development as a priority and which could afford to do so because it sheltered beneath the wing of US foreign policy.

It will in future focus less on quantitative goals for economic growth as the guiding beacon for social and commercial life. Coalitions which held together during the period of rapid growth after the second world war are now becoming unglued. There is a growing recognition that Japan should play a larger world role, in part because it cannot avoid doing so as a major economic power in a post cold war world.

Picture: Reuter

Premier Miyazawa welcomes Yeltsin and Clinton to Tokyo's G7 talks

Picture: Reuter

A frigate leading last October's 60-vessel review of the Japanese navy

To European and US ears it may sound odd to say that Japan is in crisis. Unemployment is still low, at 2.5 per cent. The economy has not slipped into outright recession unlike the recent experience of the UK, Germany and the US. Japan is running a record current account surplus with its trading partners which could be worth $150bn this year.

Yet crisis is the right term, because old assumptions and certainties are being overturned, and tried and tested precedents which have guided Japanese policy are being found wanting. Myths are being exposed in five areas:

- **Finance.** The Japanese financial system is facing probably its most serious and protracted crisis since the 1930s. The country's main banks are carrying a heavy burden of bad debts left behind by the excessive property lending in the late 1980s.

In past recessions the financial system has been stable while manufacturing companies have adjusted to threats to their international competitiveness.

Now the financial system itself is being forced to restructure and reform. The worst of the crisis is probably over. But it will take several years before the backlog of bad debts is fully cleared up.

- **Industry.** Manufacturing companies are embarking on long term restructuring plans to enhance their competitiveness. These will involve greater investment abroad, especially into south east Asia. But most manufacturers are determined to maintain a solid core of operations in Japan despite its relatively high costs. To achieve this they are implementing far reaching changes in the way they design and make products to improve efficiency.

In the car and electronics industries, which have been the engines of the growth of the Japanese economy over the past two decades, the situation is particularly troubling. Consumer electronics and computer companies say they are facing a "new product recession", because they are facing for the first time in their lives very low growth in consumer demand and chronically depressed prices.

- **Foreign relations.** Japan's foreign policy is being reshaped by the end of the cold war. Japan's old foreign policies – the right's adherence to US leadership and the left's pacifist opposition to it – are being challenged by a new realism, underpinned by a muted Japanese nationalism. The young new realists want Japan to play a larger world role, commensurate with its economic power. One of the first signs of this new assertiveness, especially evident among younger bureaucrats and managers, was the stiff Japanese opposition to US demands for numerical targets to open up the Japanese market to foreign goods and to cut the trade surplus.

Over the next few years, with its sights on a seat as a permanent member of the UN security council, Japan will be charting its way cautiously into a more independent international role.

For 40 years since the second world war Japan has relied upon US leadership to guide it diplomatically. In the next decade it will rely less on the US.

- **Social change.** In the past two years the salarymen and women who make up most of the Japanese workforce have seen some of their cherished myths evaporate. For most of the post war era Japan's scarce land has been one of its safest investments for Japanese savers. Yet in the past two years land has fallen in value by about 30 per cent in the wake of the collapse of the economic bubble.

This year there has been another shock as many large companies such as Nissan, Matsushita and NTT have announced plans to cut their workforce, throwing in doubt their commitment to a fully fledged lifetime employment system which is widely thought to be one of the hallmarks of management of large companies.

These cuts are modest compared with the restructuring underway in German industry, yet for Japanese workers brought up on on a diet of security and loyalty they have been a shock.

- **Politics.** The precise outcome of Japan's political turmoil is far from clear. Yet it is clear that a fundamental process of political change is underway.

The socialist opposition has been deeply wounded and is unlikely to recover from the setbacks it suffered in the general election. The LDP may face a period in which it can only exert its influence through coalitions. Young reformers in new conservative parties are setting the pace for Japanese politics. As a result political reforms, probably including far-reaching reforms to electoral system, are almost certain.

The centre of gravity of the entire political system is shifting, in a belated response to the economic and social changes which have swept Japan as it has become perhaps the strongest economy in the post-cold-war world.

The old dividing line between left and right is increasingly irrelevant. For the foreseeable future the most important divide in Japanese politics, which will cut across the main parties, will be between modernisers and traditionalists.

Supporters of political reform are spread through all parties. Elderly defenders of the status quo congregate in both the LDP and the SDP. Reformers in different parties often have more in common with one another than with their seniors within their own party.

The rise of the new conservative parties – the Japan Renewal Party, the Japan New Party and the New Harbinger Party – is the most visible sign of this shift. But across the political system the balance of power is swinging in favour of modernisers.

The divide between young and old will be enduring and could provide fertile soil in which the modernising conservative parties will take root.

It is too early to say what will emerge from this period of modernisation, partly because it will wholeheartedly embrace large tracts of tradition. Japan's financial and industrial sectors will probably emerge yet more competitive in a few years time. Its political institutions and social life may become more open and transparent. Japan may become gradually more assertive and independent in the world, particularly as far as Asia is concerned.

A colder environment: skiers enjoy an indoor artificial snow slope opened earlier this month at Funabashi, near Tokyo Picture: Associated Press

The economic outlook is not promising, says **Charles Leadbeater**

Clouds of uncertainty

THE Japanese economy is still stuck. In spite of hopeful signs early in the year that a recovery was imminent, it is still too early to say that the economy has bottomed out from the long decline which began with the sharp fall in land and stock prices in 1991.

This short term uncertainty about when the economy will hit the bottom is only further clouding its medium term outlook. It seems increasingly likely that when growth resumes it will be extremely moderate and tentative.

In the longer term, beyond the next couple of years, the strength of the economy will depend upon Japan's capacity for further fundamental restructuring to deliver growth. It achieved this with a vengeance in the 1970s in response to the oil shocks, by manufacturers upgrading their product ranges and shifting from heavy to light industry.

Now Japan faces challenges of a similar magnitude – not just in the structure of its industry but also in its markets for labour, assets and consumer goods – if its economy once again is to grow strongly in the second part of this decade.

The slump set off by the sharp fall in stock and land prices which began two years ago is still with Japan. In the year to this March the economy grew by about 0.3 per cent, the lowest rate since the oil shocks of the 1970s. In the past few weeks forecasters have been downgrading their estimates of what is to come this year and next.

Optimists, such as Mr Robert Feldman, chief economist at Salmon Brothers, the US securities house, predicts that the economy will grow by 3.2 per cent this fiscal year to next March and by 3.4 per cent in the following year.

However, many other forecasters believe growth will be more moderate, at closer to 2.5 per cent or less.

In the short run there is growing evidence that the slowdown in the economy has been arrested by a huge public sector effort to prop up the economy and prevent it falling into recession.

Picture: Associated Press

Tokyo currency dealer: massive intervention has arrested the slowdown

The main domestic source of growth has been a massive infusion of public funds into the economy, through special pump priming packages worth more than Y24,000bn over the past year. This has helped to fuel construction demand and house building.

Industry is finally getting its vast stocks of unsold inventories under control but only after sustained cuts in industrial production. Within the next six months industrial output may start to revive thanks to this inventory control, but the pickup is expected to be moderate.

The money supply has also begun to rise, after an unprecedented period of contraction late last year. Meanwhile, the health of the financial sector has improved with the surge in the stock market over the past few months, which has taken the Nikkei away from the lows of about 17,500 it plumbed last year to more than 21,000.

This recovery was in large part orchestrated by public pension funds buying stocks and regulatory changes to improve the profits outlook at NTT, the telecommunications group which accounts for a large chunk of the Tokyo stock market's valuation.

This rise has helped to ease many of the difficulties faced by Japan's banks which are weighed down with bad debts left behind by speculative property lending in the late 1980s.

The stock market's rise has strengthened the banks' balance sheets and so made it more likely that they will be able to lend enough to finance recovery when it finally arrives.

However set against these signs of recovery are three restraints on growth.

- First, consumer spending which accounts for between 55 per cent and 60 per cent of Japanese gross domestic product, is still deeply depressed. The reasons for this baffle economists. The labour market is weakening but it is still tight, with official unemployment at 3.5 per cent. Inflation is depressed, with discounting rife, so real incomes are rising. The fall in land prices is bottoming out, which combined with the rise in the stock market should be strengthening consumer balance sheets.

This should soon translate into less precautionary saving and high high street spending. But a revival in consumer spending has been predicted for many months without materialising and it is still not clear when it will recover strongly.

- Second, corporate investment, which accounts for between 15 per cent and 20 per cent of GDP is still being cut back as companies attempt to respond to three years of declining profits by cutting costs.
- Third, Japan's opportunities for exploiting external sources of growth are being curtailed by: the rise in the value of the yen from about Y125 to the dollar at the start of the year to about Y108: mounting pressure over Japan's trade surplus and the recession in Europe. In spite of their rapid growth the south east Asian economies are unlikely to provide an alternative market in the short run, especially for more expensive, sophisticated goods.

In the longer run, the outlook for the economy will depend on a different mix of factors. There are powerful forces working towards a resumption of high growth in Japan. The US will maintain its pressure for Japan to run an expansionary economic policy to stimulate demand for imports to cut the trade surplus. Japanese manufacturing companies are busily laying the basis for a new surge in productivity in the next few years, with ambitious programmes to increase efficiency.

However, against these forces that will drive growth are other factors that will constrain it. The political uncertainty may cast a shadow over the prospects for further fiscal stimulus.

The decline in Japan's birth rate, slow growth of its working age population and rapid ageing mean Japan could face a structural labour shortage unless it allows greater immigration. This labour market constraint could limit Japan's capacity for non-inflationary growth.

Japan's asset markets present another constraint. Policy makers are so worried that the stimulus may spill over into another bout of speculation to match the late 1980s that they want to control growth.

Meanwhile, the pressure from the US over the scale of Japan's trade surplus, which is expected to be worth about $150bn this year, means that there is a curb on Japan's access to foreign markets as a source of growth.

The main hope for escape from these constraints lies with reforms at home to create conditions for more sustainable domestic demand-led growth, by freeing consumer and retailing markets to increase the share of consumption within the economy.

Michiyo Nakamoto studies how industry is adjusting to the painful realities of recession

Beating an orderly retreat

JAPANESE are quick to embrace catchy foreign words to describe trends at home.

The latest in their adopted lexicon is "restra," or restructuring, as company after company has launched programmes to reorganise its business operations and work its way out of the current economic gloom.

After a three-year period of economic growth – the second longest period of expansion since after World War Two – many Japanese companies had lost touch with market realities.

The recent fate of Japan's consumer electronics and motor industries, two of the country's most internationally competitive sectors, showthe degree to which corporate strategy and market conditions had drifted apart.

Consumer electronics companies, from giants such as Matsushita and Sony to the more specialised concerns such as Pioneer and Aiwa, have been caught with few new products to stimulate demand at a time when interest in mainstay products has slumped.

In the motor industry, both Toyota and Nissan, Japan's largest and second largest car makers, recently started production at new state-of-the-art factories just as the domestic market was heading in a downward spiral.

"Car manufacturers have set their investment plans on the understanding that the economy would continue to grow but this is no longer appropriate," says Mr Yoshifumi Tsuji, president of Nissan.

Nissan sent shock waves through the country when it announced earlier this year that it would close a car assembly plant in Zama, near Tokyo, and move production to a newer facility in southern Japan.

Its decision was forced on it by the recognition that the company cannot expect to use its capacity to build 2.5m cars in Japan to the full under the present circumstances.

In addition to such changed circumstances in the domestic market, Japanese companies which depend to a significant degree on exports have been severely battered by the 13 per cent rise in the yen's value this year.

It is hardly the first time corporate Japan has had to review seriously the way it operates and readjust costs and business structures to changed market realities.

Many businessmen in Japan still remember vividly the painful restructuring needed to overcome the sharp appreciation of the yen after the Group of Five industrial nations agreed in 1985 to strengthen the Japanese currency against the US dollar.

Through that experience, Japanese companies emerged stronger and more competitive, establishing a reputation for being fierce and invincible.

The question being asked today is whether Japanese companies, faced with one of the worst recessions in post-war history, a strong and rising yen and higher costs of financing, can do the same again.

The pressures of a business environment have forced companies to reorder their priorities. As they watch their profits dwindle in the face of the prolonged slump, Japanese executives have begun to grapple with the need to raise profits even if markets are not growing.

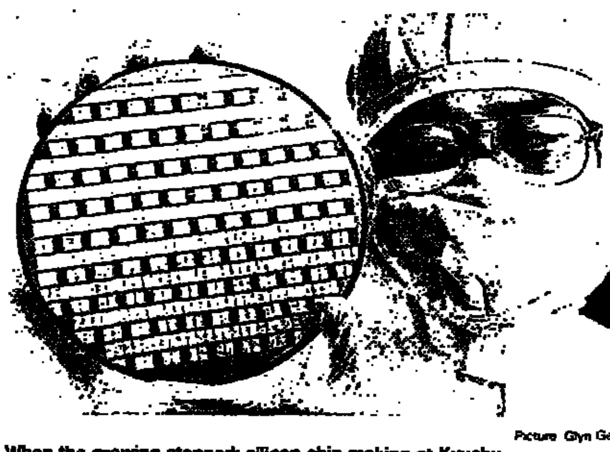
"From now on managers have to think about maintaining profits even when revenues are not rising," says Mr Yasuaki Takano, president of Sanyo Electric.

To do so, companies are employing a two-pronged approach of cutting costs and raising productivity.

The cost-cutting exercises at Japanese companies have ranged from the conventional steps of reducing capital expenditure and R&D spending, cutting down on overtime work and restricting the hiring of new employees to the more dramatic and controversial measures of closing facilities, such as Nissan did, or introducing early retirement.

Fujitsu, the computer company, has said that it would reduce its workforce by 6,000 in two years through natural attrition and voluntary transfers to subsidiaries and affiliated companies many of which it was establishing itself.

Early retirement programmes have also become a popular option as a socially less disruptive way of reducing the workforce and have been introduced at companies ranging from Alps, an electrical components manufacturer, to Mitsui, the trading house.



Picture Glyn Genin

When the growing stopped: silicon chip making at Kyushu

A particular feature of these cost-cutting exercises is that Japanese companies are for the first time confronting the need to slim down their white collar, rather than blue-collar, workforce. At the same time many companies have been reviewing their organisational structures in an attempt to raise overall efficiency.

MATSUSHITA, which has been criticised for its poor response to defects in its refrigerators and a financial scandal at a subsidiary, is trying to grapple with what is known in Japan as "the disease of the corporate giant," or a bloated structure.

The administrative staff had become too large and much of the work that is done at head office is necessary only because of the size of the company, points out Mr Jiro Aoki, general manager of the domestic sales planning office.

Matsushita has more than 50 subsidiaries in Japan alone, some of which compete with each other in specific product areas. "We used to think that this competition would lead each company to do better but it was in a way wasteful," Mr Aoki admits. Now, Matsushita is trying to clarify business areas by company.

At the same time as they attempt to slim down and raise productivity in the office, Japanese companies are cutting costs on the factory floor.

For example, NEC is working with suppliers of semiconductor manufacturing equipment to standardise certain parts of chip manufacturing machines. The target is to reduce the costs of manufacturing new generations of chips by about 20 per cent.

Standardisation is also being increasingly adopted at consumer electronics companies and car manufacturers which have found that the wide variety of models they had been offering were a waste – of more than 200 different types of TVs offered by makers in Japan only about 20 per cent really sold, says Mr Aoki – and that consumers were more interested in products which offer value for money.

As the yen has risen strongly against the dollar, equally important in their cost-cutting exercise has been the need to move more production overseas and to procure more components from abroad.

Japanese manufacturers still have a high level of skills that keeps their products competitive in world markets. They have also actively developed key products for which there are few alternative suppliers.

But to maintain that leading edge they will need a clear business strategy that takes into consideration the changed market environment, and that is where the dividing line between those companies that emerge stronger and those that drift is likely to lie.

"In Japan, top management which has been with a company for 30 or 40 years, cannot introduce real change," says Mr Kuniyoshi Sasaki, a director at the Japan productivity centre. Neither do most executives have enough to provide the strong leadership that is needed in a time of crisis.

The benefits of restructuring on the bottom line will begin to filter through in the years ahead. But unless cost-cutting goes hand in hand with a strategy for future growth, those benefits may turn out to be short-lived.

Robert Thomson on the banks' debt burden

Too bad to admit

IN protesting that they have learned the lessons of the easy money era of the late 1980s, Japanese banks stumble when asked to explain the continuing close ties to ailing developers such as Azabu Tatemono and EIE International, which have extensive property holdings and even larger piles of debt.

Picture Ashley Ashwood

Tokyo bank official: the strains are showing in institutions of all sizes

One reason, often unstated, is that the banks are reluctant to reveal the full extent of their exposure to these companies. Another is the old justification that these developers are too big to let slip, as their fall would shatter confidence in an already battered Japanese property market.

But, departing from this tradition, the Long-Term Credit Bank of Japan announced this month that EIE International, with outstanding debt conservatively estimated at Y700bn, will have to fend for itself. Five bank managers transferred to the company have returned to the bank, which has promised to write off the losses arising from its loans of Y190bn, about half of which are estimated to be bad.

The EIE case has stirred debate in Japan over whether the banks are now prepared to own up to bad debts and deal with them aggressively, in contrast to the past practice of understating the exposure and stretching out the write offs over a decade or more. The latter approach had the blessing of the Ministry of Finance, which thought it would maintain confidence in the system and limit the losses to tax revenue arising from write offs.

It was natural that LTCB, and four other leading banks linked to EIE, should be nervous about the reaction to the unusual tack of admitting to problems. On the day of the announcement, one slightly giddy banker asked this journalist: "What do you think about our decision? Do you think it is a good thing?"

But it is not clear that the EIE case marks a turning point in the attitude of Japanese banks to their problem loans. The company is a maverick, with a bizarre collection of trophy properties, ranging from a floating hotel in Vietnam to a private university in Queensland. Its president, Harunori Takahashi, is definitely not mainstream, having retreated to the golf course when told that his bankers were cutting their losses.

Property loans exposure of top 10 banks (%)

Nippon Trust	26.7
Nippon Credit	23.8
Fukutoku	18.3
Hanshin	17.9
Chiba	17.8
Taiheyo	17.6
Chuo Trust	17.3
Toyo Trust	16.7
Tokuyo City	16.6
Mitsui Trust	16.6

Source: Tokyo Shoko Research

Importantly, much of EIE International's portfolio is outside Japan, meaning that the impact on the domestic property market is limited. Harder evidence of a new attitude to problem loans would be presented if a bank put pressure on a more mainstream developer, and if banks revised their present narrow definition of a non-performing loan.

Officially, the country's 11 leading commercial banks have Y8,400bn in non-performing loans, but that figure is unofficially estimated to be about half the actual total. Restructurings in which interest rates are cut to almost zero are not counted, nor are affiliates' bad loans, even though the bank will be ultimately responsible for clearing away the debris.

Nippon Credit Bank, one the country's three long-term credit banks, is burdened by bad loans from three financial affiliates, which it says are not technically its responsibility. However, when dealing with the affiliates, most customers saw the respectable figure of NCB looming behind, as is the case with even the distant affiliates of other large institutions.

The bank estimated its non-performing loans at end March to be Y592bn, though prominent reports in a Japanese magazine claiming to be based on internal documents from the bank have suggested the figure is higher. NCB officials say the "worst is over" and that the arrival as president of a former finance ministry official, Mr Hiroshi Kubota, has helped morale.

NCB is a good example of the difficulty of measuring the depth of bruising in the country's banking system. Instead of bad loan figures, the bank emphasises that business profits rose 68 per cent last year and that its capital adequacy ratio, as defined by the Bank for International Settlements, was 9 per cent at end March, up from 8.32 per cent a year earlier, and easily above the 8 per cent target figure.

The finance ministry says the announcement of non-performing loan figures is intended to restore confidence in the banking system, as they show that the damage is not as severe as rumoured. But banks, and the ministry, are still unwilling to highlight the differences among the institutions, even though the quality of loan portfolios varies greatly.

Most attention has been given to the larger Japanese banks, but cracks are also appearing in institutions such as smaller regional banks and the local shinkin banks. These institutions are suffering most during the economic downturn, particularly if they are already burdened by problem loans arising from the bubble era.

The collapse of Kamaishi Shinkin last month and a rush of mergers among other smaller banks and credit associations have highlighted the pressures on these institutions. It is understood that about 11 troubled shinkin banks are receiving low interest loans from their parent association, and the longer the economic downturn, the more assistance will be required.

Kamaishi's failure was linked to its role as the provider of funds to small businesses in a coastal area in northern Japan, not to rash lending to stock or property speculators. About half of the bank's loan portfolio of Y35.6bn is reckoned to be bad and it will be liquidated in October, when 12 branches will be taken over by regional banks.

The disappearance of Kamaishi Shinkin, whose mistake was to keep the funds flowing to faithful but struggling clients, shows that a streamlining of the banking system is occurring, though not as quickly as was generally predicted.

Japanese banks are still resisting the pressure to change, but, as the Kamaishi case shows, there comes a time when the institutions can resist no more.

KEY FACTS

Area	377,719 sq km
Population	124.5m (Oct 1992 est)
Head of State	Emperor Akihito
Currency	Yen
Average exchange rate	1991 \$1=Y134.71; 1992 \$1=Y126.65
	16/7/93 \$1=Y107.65

ECONOMY

	1992	Latest*
Total GNP (\$bn)	3,705	n.a.
Real GNP growth (%)	1.5	0.0
GNP per capita (\$)	29,794	n.a.
Components of GNP (%)		
Private consumption	56.5	
Total investment	30.8	
Government consumption	9.4	n.a.
Exports	14.2	
Imports	-10.9	
Consumer prices (% change pa)	1.7	0.9
Unit lab costs (% change pa)	9.2	3.6
Ind. wage rates (% change pa)	1.1	1.9
Ind. production (% change pa)	-7.1	4.2
Unemployment (% of lab force)	2.2	2.5
Reserves minus gold (\$bn, Dec)	71.6	82.5
M1 growth (% pa)	4.5	2.9
M2 growth (% pa)	-0.4	1.4
3 month money mkt rate (% pa, avg)	4.3	3.1
Govt bond yield (% pa, avg)	5.3	4.4
FT-A Index (% change on year)	-22.7	+19.5
Current account balance (\$bn)	117.6	135.2
Exports (\$bn)	330.9	353.7
Imports (\$bn)	198.5	205.3
Trade balance (\$bn)	132.4	148.4
Trade partners (1992, % by value)	Exports	Imports
US	28.2	22.4
Taiwan	6.2	
Hong Kong	6.1	
Germany	6.0	4.6
China		7.3
Australia		5.3

* = 1993 FIGURES:
GNP growth - 1st quarter.
Unit labour costs - March. Wages - April.
CPI, ind. production, unemployment, reserves - May.
Money growth - June.
Interest rates - 16/7/93.
Stock mkt - % change from 31/12/92 to 30/6/93.
Trade figures - *EIU* estimates for year.
SOURCES: IMF, Datastream, Economist Intelligence Unit

Japan seeks a new role in the world, writes **Charles Leadbeater**

The old order endeth

JAPAN was a sleeping partner in the cold war. It is just starting to wake up to the fact that it is over.

Japan's nuclear pacifism meant it was never a direct participant in the nuclear stand off which was central to the cold war. Yet it was active in the wings, as a US ally.

The Japanese economy's growth in the 1950s was partly attributable to US spending on the Korean war. In the 1980s the rise in the US federal deficit, partly a result of higher defence spending, also helped the Japanese economy to grow.

Throughout the cold war Japan accepted the US foreign policy and security lead. Sheltering beneath this umbrella Japan pursued its main aim to develop its economy. The US accepted that Japan should play this limited role as long as it was a powerful economic and democratic buffer against the expansion of communism in Asia.

This rationale for the US relationship with Japan no longer holds good. As a result Japan is having to embark on a painful, slow, highly sensitive search for a new international role.

This search involves several components. Most important is a renegotiation of its relationship with the US. This renegotiation has just started with the recently concluded US-Japan framework for trade talks to reduce the ballooning Japanese trade surplus. It may go further into the nature of the security and political alliance between the two countries.

The Russian military threat is receding. The US now views Japan as an arch economic competitor. Worse than that there are new tensions in their approach to the post cold war world. The US Clinton administration has championed a more active western engagement with Russian reform. Japan has found this difficult because its territorial dispute with Russian over the islands off the northern tip of Japan is still unresolved.

Japan's search for a role is complicated by the changing balance of power within Asia. Japan is more aware of the need for an effective security framework in Asia as the economic and military power of China grows and the fate of communist north Korea remains uncertain.

The speed and uncertainty of events in the post cold war world has also exposed Tokyo's foreign policy making. Japan's bureaucracy works best when it has clear precedents to follow to guide its decisions. In the post cold war world of ethnic and nationalist tensions in Europe and Asia such precedents are hard to find or buried in history. So Japan has often been caught out by the speed with which crises have developed, principally the Gulf War in 1991.

The immediate focus of Japan's efforts to develop a new world role will be its hopes of becoming a permanent security council member of the United Nations. Japan hopes to gain a permanent seat in 1995. Such a responsibility would force it to make faster, harder decisions about what should be done in moments of crisis. This will almost certainly require more than changes to the way foreign policy is made. It will demand changes of substance as well.

Several camps are competing to provide Japan with a new foreign policy lead into the post cold war world.

The traditionalists on both left and right believe that Japan is a "special state". Its history of wartime aggression and, most important, its subjection to nuclear bombing make it exceptional, the traditionalists argue.

They believe Japan should accept as a principle a modest international role because it can never become an international military force, even in

In search of an international role: Japanese troops leave to join UN peacekeepers in Cambodia   Picture: Reuter

the cause of peace. The traders, such as Mr Noahiro Amaya, former vice-minister at the Ministry of International Trade and Industry, see Japan as a commercial democracy. Miti is still the bastion of this view.

The traders believe Japan should model itself on the great trading powers of the 15th and 16th centuries, such as the Netherlands. According to this view, Japan is the world's merchant, the US is the world's samurai. Japan should assess diplomatic initiatives against their financial returns.

These traditional and trading views of Japan's foreign policy are now being challenged by a new realism, underpinned by a nationalism in Japanese culture, that Japan is different and more successful than many western powers.

The new realists are best represented by Mr Ichiro Ozawa, co-founder of the Japan Renewal Party which made impressive gains in the election. The new realists believe Japan can no longer afford an isolationist pacificism. Its international partners will see it as a free rider, using the world's trading system but doing little to protect it.

The realists believe the 1991 Gulf war showed that a cash-based approach to diplomacy does not work. After much debate, Japan contributed $13bn to a war effort that most Japanese did not support. Yet the nation feels it received only grudging thanks from its international partners, who accused it of dragging its feet.

The realists argue that the link with the US should be strengthened: Japan should contribute more to international security through finance, personnel and technology. Japan's political institutions should be reformed to create a two-party political system, which would generate open debate on Japan's foreign policy priorities.

Yet, they say, Japan should not simply follow the US. There is a nationalism mixed into their realism. They believe Japan should represent an Asian view of the world, especially on economic issues, where the US and Europe could learn from the Far East's dynamism.

The end of the cold war has unleashed nationalism in much of Europe. Such a movement will always remain politically muted in Japan, for fear of rekindling other countries' fears that it harbours imperial ambitions.

Yet there is an increasingly powerful sense of national pride in Japan stemming from the contrast between its economic achievements and social stability and America's economic and social malaise, symbolised to many Japanese by the spread of drugs, urban violence and divorce.

The Yoshida doctrine was framed when Japan was vulnerable. Japan's future foreign policy, however it is made and whoever will make it, will reflect its growing national confidence.

The accession of the new realists into positions of power in Japan will bring benefits and costs for the west. Japan will play a more active world role, but the west will also find it tougher to bargain with.

Michiyo Nakamoto finds mixed attitudes towards the US president

In two minds about Bill

IN A country where youth is still associated mostly with inexperience and naiveté, the reaction to a young and earnest US President has been as schizophrenic as the relationship between the two countries in recent years.

Many Japanese have warmed to President Bill Clinton's enthusiasm and his approachable style. Some have seen in his show of youthful determination a glimmer of hope for the renewal and revitalisation of the US.

But at the same time, the Japanese public has been outraged by the tough demands made on their own government by the US under Mr Clinton.

The Japanese popular view of Mr Clinton has been very much a direct result of the different approaches the US President has employed in his dealings with Japan.

On his visit to Tokyo for the Group of Seven Summit meeting earlier this month, the US President went out of his way to take his message directly to the Japanese public, presumably with the hope of spreading some goodwill along the way.

Mr Clinton gave the Japanese public a first-hand taste of his informal style when he addressed a group of students at Waseda University – a generation more likely to relate to his view of things, not to mention his style – and then ventured to chat with residents in the neighbourhood.

The event went down well with the Japanese press which featured front-page photos of the US president meeting school children and waving to an amateur baseball team.

However, Mr Clinton's easy-going ways have not altered his reputation in Japan as something of a bully, determined to wrest concessions from Japan on trade.

US demands that Japan reduce its current account surplus from 3 per cent of GDP to between 2 and 1 per cent within three years and raise the ratio of imports to GDP by 30 per cent have been seen to be heavy-handed.

Comments from US officials which led to the sharp rise of the yen have been interpreted as a sign that the Clinton administration would use whatever means it has available to reduce its trade deficit with Japan.

A joint survey conducted last month by the television companies TBS in Japan and CBS in the US and *The New York Times*, found that 76 per cent of the Japanese respondents did not trust Clinton and 85 per cent believed the US was blaming Japan for its own economic problems.

Politicians and bureaucrats have also expressed unhappiness with the way the relationship has gone under the new administration, but they have tended to blame the Clinton trade team's relative inexperience and the apparent lack of a clearly defined Japan policy for the increased friction.

Taking a somewhat more philosophical approach, Mr Kiichi Miyazawa, until recently Japan's Prime Minister, along with a host of political commentators and academics, have seen the tougher US stance on trade with Japan as an indication that the bilateral relationship has reached a turning point.

The tougher stance of the Clinton administration towards Japan, according to this school of thinking, is a direct result of a shift in the world order in which the US can no longer be expected to play the role of the tolerant superpower. As such, it was more a sign of weakness than of strength on the part of the US and a development that requires Japan to play a more assertive role in the bilateral relationship.

Mr Miyazawa explained on Japanese TV that Mr Clinton's predecessor, George Bush, who was shot down near the Japanese islands during World War Two, belonged to a generation of Americans that thought they were responsible for shaping post-war Japan and therefore took a more protective stance towards the country.

MR CLINTON'S relationship with Japan is very different, the prime minister pointed out. Mr Clinton grew up in an America that watched TV on Japanese-made sets and drove Japanese cars. "To him, Japan has always been an adult," Mr Miyazawa said.

Sensing that this new order calls for them to stand on their own feet, the Japanese authorities have taken a harder stance against US demands.

Calls on Japan to set numerical benchmarks which would measure progress in opening up its markets to foreign goods, and in particular, to set a target for reducing its current account surplus, have been vigorously resisted on the grounds that such action would lead to managed trade.

Unilateral action by the US, such as the recent ruling by the Commerce Department to impose anti-dumping duties on steel imports, have been met with counter-threats to take the issue to the General Agreement on Tariffs and Trade.

Such resentment and frustration felt in Japan towards the Clinton administration's handling of trade friction with Japan runs a serious risk of further aggravating bilateral relations.

If President Clinton's generation of Americans see Japan primarily as an economic power, a growing number of Japanese in positions of influence regard the US as "a declining power that is blaming others for its own shortcomings," says Mr Yoshio Terasawa, a former vice president of Nomura Securities who is now a member of the Japan New Party.

Fortunately, spreading irritation with the US is still generally tempered by the view that much of what the US is demanding is either for the country's long-term good or is something that Japan needs to face up to sooner or later.

Government bureaucrats, such as those at the Ministry of International Trade and Industry who jealously guard the interests of domestic industry, admit that Japan must try to open its markets more not because of US pressure but to bring its practices in line with rest of the world.

Even the tabloid press has portrayed the US president as a friend of the Japanese consumer. The daily *Gendai* pointed out that the president's remark to the G7 – that Japan has the ability to further stimulate its economy – revealed to the Japanese public what the Japanese government had so far failed demonstrate – that it still has the financial means to invest in social infrastructure, lower taxes and generally improve the lot of the average consumer.

The consensus so far in Japan is that these mixed feelings of resentment and goodwill are the natural outcome of a relationship that is moving increasingly towards a more equal partnership. As Foreign Minister Kabun Muto, who compares the relationship to that of two sumo wrestlers who are brothers, puts it, "there's a feeling of rivalry. *But they're still brothers.*"

William Dawkins probes the complexities of Franco-Japan relations

A tale of mutual suspicion

IF ASKED to name the prickliest industrialised western power, many Japanese would probably cite France.

Paris's attitude to Tokyo has been sensitive ever since General de Gaulle insultingly described a visiting Japanese prime minister as a transistor salesman. Former French prime minister Edith Cresson's description of Japan as a nation of ants shows that some circles at least still recently held serious anxieties over a Japanese threat.

However, Mrs Cresson's anti-Japanese gibes were made two years ago. Since then, the Paris government has staged a sustained diplomatic charm offensive and its complexes about Japan have begun to melt. NEC, the electronics company, has been allowed to take a stake in Bull, the French state-owned computer maker formerly seen as an exclusive national asset, while the Paris government hardly turned a hair when state-owned Renault's Swedish partner Volvo, formed a joint venture with Mitsubishi.

The two countries' bilateral relationship is of secondary value to both, since their diplomacy centres on bigger partners with whom they also have occasionally uneasy relationships; Germany in France's case and the US in Japan's. Yet this odd couple is important because revealing parallels lie just under their differences.

This will surprise most people, for whom Japan and France could not be more of a contrast. On the diplomatic front, both are grappling with the changes caused by the break up of the Soviet Union, and producing very different responses. France uneasily faces a stronger Germany but vigorously defends its position as a top European power, while Japan has yet to carve out a role for itself in a confused and potentially volatile south-east Asia as its security links with the US become less important. Meanwhile, Tokyo's traditional reluctance to assert itself – never a French problem – faces an unprecedented test in the face of the Clinton administration's demands for better access for US exports.

On the domestic front, one factor that successive French and Japanese governments have in common is that they have for decades believed that the state should take a hand in valuable national industries.

While the results of intervention have been dramatically different in Japan and France, the assumptions are similar. There are differences in approach, in that the Japanese state's guiding hand is traditionally subtle and appears to follow or anticipate the market's natural direction, rather than try to shape it, while France is well known for the heavy industrial interventionism it has practised through its extensive public sector.

Yet their approaches have converged slightly in recent years. France's new centre-right government has accelerated the reduction in industrial intervention cautiously begun by the Socialists. Meanwhile, Japan's conservative government has returned to intervention to soften the economic downturn.

The bureaucracies that carry out and help shape these policies also have similarities. Both are controlled by a tiny civil service élite, that carries enormous weight in their finance and industry ministries.

The members of these public administration élites are both drawn from a meritocratic and demanding state education system. In France's case, the inner circle will often consist of graduates of the Ecole Nationale d'Administration (Ena), a prestigious civil service college set up after the second world war to help rebuild the shattered public administration.

The nearest Japanese equivalent is Tokyo University law department, whose brilliant young graduates took a prominent part in targeting key sectors for development in Japan's high-speed post war economic growth. One key contrast is that Ena graduates move between the civil service and politics much more often than the top people in Japan's public administration, though in both countries there is a steady flow of senior public servants into business.

The aims and the structure of the two public administrations are, however, very different. France, for example, has no equivalent of Japan's Ministry of International Trade and Industry (Miti), the powerful department which has co-ordinated industrial policy since before the second world war.

THE Paris government did once flirt with the idea of creating a French Miti, when Mrs Cresson tried to create a super-ministry, embracing industry, telecommunications, trade and part of the finance ministry – perhaps a sign that her attitude to Japan concealed some admiration. But the finance minister of the time, the late Mr Pierre Bérégovoy, managed to sink the scheme, a grave threat to his own ministry's traditional dominance.

Japan has responded calmly to French complexes over its economic power and intentions. Its government has delivered no verbal counterblasts. Nevertheless, Nissan and Toyota quietly shunned France in their first wave of plant investment in Europe, despite France's geographical advantage at the heart of the European single market.

This continues to be an irritant, as France has emerged with Italy as a leader in attempts to curb exports from UK-based Japanese car plants, described by Mr Jacques Calvet, chairman of Peugeot, as a Japanese aircraft carrier moored off the coast of Europe. By contrast, some French politicians, such as Mr Roger Fauroux, former industry minister, sincerely regret missing out on these prestige investments.

French investment in Japan is unsurprisingly minimal, yet France has not done too badly in attracting Japanese investment, despite missing the car plants. Datar, the French regional development agency, recently counted 122 Japanese companies in France, the second best European score after Britain's 187, though the gap is much wider in cash terms.

All this has done nothing to diminish Japanese consumers' love affair with French culture of all kinds. Japanese consumers still continue to represent one of the biggest markets for French luxury goods as well as an increasingly substantial slice of tourist income, as the yen's strength reduces the price of a Parisian holiday for Japanese travellers. Japan continues to be one of the largest markets for French art, as can be seen by the paintings that continue to hang in the Tokyo head offices of banks and industrial companies, despite the economic slowdown.

On both sides, the relationship is complex, mingled with admiration and apprehension.

Japan's biggest neighbour offers openings and challenges, says **Robert Thomson**

China becomes a competitor

WHEN the Japan Cotton Spinners' Association began collecting information this month in an attempt to prove that Chinese manufacturers were dumping fabric in the Japanese market, it was also gathering evidence that economic and political ties between the two countries are changing.

The cotton spinners complain that Chinese producers are damaging their industry by exporting materials for 30 to 40 per cent less than the selling price of the domestic product, echoing the past concerns of US producers about lower-cost Japanese textile exports in the early days of the economic rise from the wartime rubble.

Japanese government officials are embarrassed by the cotton case, as they are leading the debate over reform of anti-dumping procedures, often used to keep markets closed to more competitive products. But the emerging might of China has already prompted Tokyo to be the aggressor for the first time, imposing penalties this year on Chinese exporters of ferrosilicon manganese, which is used in steel production.

These cases highlight the ambivalence of Japanese industry towards China. The Chinese market provides remarkable opportunities for export growth, particularly compared with the sluggish demand from other international markets and the declining demand at home, where companies have excess production capacity after a capital spending surge during the late 1980s.

However, the improvement in the Chinese production quality, often aided by the transfer of Japanese technology and expertise, has already undermined the profitability of textile producers and other industries are conscious of a threat from China. Garment makers in Kyushu, in the south, estimate that two-thirds of their number will be forced to close factories by the end of next year.

In the first half, Japan's exports to China rose 51.2 per cent from a year earlier, with exports of cars six times larger and those of television cameras increasing fourfold, while exports of steel, communications equipment, motorcycles and construction equipment all doubled. Over the same period, China's exports to Japan expanded 15.2 per cent, with a tripling of office machinery exports, most made in Japanese-run joint venture factories.

The increasing Japanese business confidence in China's economic refroms has coincided with the need for Japanese manufacturers to reduce costs to improve profitability after three years of falling earnings. Combined with the lure of China's domestic demand, companies have concluded that the conditions are finally right for direct investments that they were reluctant to make in the past.

Improved Chinese production quality, often aided by Japanese technology, is threatening Japanese textiles companies – and other industries are conscious of a threat from China

Last year, Japanese direct investment in China doubled and, in recent months, a company has announced a new factory, outlet or partnership in China each day. Nissan Motor has just formed a joint venture to produce jet looms in Shenyang, in the north, while Toshiba has stretched its service network by opening new branches in Jinan, in the east, and Kunming, in the south-west.

The interest extends to securities houses. Nomura Securities, the country's largest broker, has been chosen as lead manager for the Hong Kong listing of Dongfang Electric, a mainland power company based in Sichuan province. Nomura, cutting employees in Europe, has increased its Asia department personnel from 580 to 616 over the past year and shifted the operation's base to Hong Kong from Tokyo.

Mr Hideo Sakamaki, Nomura's president, said cultivating business in China takes longer than elsewhere: "You need a long-term perspective. Over a decade or two decades you can build a human network – that is how you do business in that country."

Not every Japanese company has the patience or the funds to wait so long for a return, and there is concern in Tokyo that the measures taken by Beijing to cool an overheating economy could lessen the short-term opportunities to profit from China. An official at the Ministry of International Trade and Industry said past attempts to reassert control of the economy have been heavy handed, and it remains to be seen if Beijing has learned from those errors.

The tangible power of the emerging China has also stirred debate in Tokyo on whether Chinese political and military influence in the region will also be overwhelming. Japanese defence analysts have advised the government to take more interest in the consequences of rising Chinese military spending and weapons renovation.

Publicly, Japanese officials are careful not to offend China, but, in private, they suggest that US concerns about the expansion of Japanese influence in Asia should be redirected to the rapid growth of Chinese influence in the region. One finance ministry official complained that the US is "looking in the wrong direction when they worry about a yen bloc in Asia", and should pay "far more attention to the changes in China".

Within the foreign ministry, which would like Japan to take an active role in the international arms debate, there is division over whether pressure should be applied to China on military issues, backed by the implied threat that the flow of Japanese financial assistance could slow if Beijing does not exercise restraint.

In the past, Tokyo has not wanted to tackle China on sensitive political issues. Japanese officials have been reluctant to express clear support for the proposed expansion of democracy in Hong Kong and, in private meetings with Chinese, are said to express dismay that the UK is creating "instability" in the territory.

But the emerging strength of China has not only ruffled the cotton spinners; it is also forcing the Japanese government to redefine a relationship partly based on the idea that Tokyo could score points with Beijing by "representing" its interests in international gatherings and ensuring that China would not be "isolated".

Dealing with an increasingly confident China will be less simple in the future, and the Japanese government will need to develop a broader set of principles that takes into account demands ranging from its own ambitions for a higher profile in Asia to the interests of the cotton spinners.

Picture: Glyn Genin

Shanghai's commercial centre: China displays a new confidence

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A world war rages over electronic games sales, says **Simon London**

Nintendo versus Sega

A VISIT to Nintendo's head office in Kyoto belies its position as the world's leading supplier of youth entertainment. The modest premises could belong to any family-run Japanese company, the atmosphere is formal and restrained. Despite generating multi-million dollar sales, the impression is of a company that has not lost touch with its roots as a manufacturer of playing cards.

The public face of Sega – its arch-rival in the battle for the hearts, minds and leisure time of a generation – is rather different. At its modern office complex in suburban Tokyo, visitors are not plied with green tea from china cups but with Coke from a vending machine. The fast cars and motor bikes parked outside reflect a corporate culture in line with its reputation as the Young Turk of the video entertainment business.

The difference between the two companies also runs to industrial strategy. Nintendo has made a conscious decision to keep its overheads low, so most manufacturing is contracted to outside suppliers. Despite being Japan's third largest company measured by profits, Nintendo has fewer than 900 employees. It resembles a management company, co-ordinating its empire through a network of licensed subcontractors.

That reflects the low-cost philosophy of Mr Hiroshi Yamauchi, the company's president. In a new, volatile market such as video entertainment he believes Nintendo should be able to respond quickly. It would thus be unwise for the company to follow motor manufacturers, for example, by building expensive production facilities.

Sega has taken a more conventional approach. It employs 800 in research and development alone, out of a total workforce in Japan of 3,500. Most of the games played on Sega machines have been designed by the company itself, rather than outside companies working under licence.

The unanswered question is which company will be able to capture the new technologies – such as more CD-based entertainment systems which can handle much more information than conventional software cartridges – which look certain to transform the market. Nintendo is taking a relaxed, self-confident approach to new technology. It argues that the full potential of cartridge-based systems, running on the latest 16-bit games computers, has yet to be exploited by games designers. Until that happens, it sees no need to rush into other formats.

"Other areas of art and entertainment prove that the drive for technological change always comes from the makers of software – the artists. That has been true of areas such as cinema. I believe it is also true of this business," commented Mr Masayuki Uemura, general manager of Nintendo's research and development.

He argues that the new technologies will not necessarily allow games designers and software engineers, the artists of the video entertainment business, to produce better games. The companies now investing vast sums in development may thus be disappointed. It is certainly true that Nintendo's 8-bit Family Computer, on which its dominance of the market rests, was hardly state of the art when it was launched 10 years ago. But the machine was sufficiently powerful to test the software engineers and chea priced low enough to sell.

NEITHER Nintendo nor Sega expects to make large profits from selling the hardware itself. The games consoles are simply the medium by which a continuing market for new games is created. Having bought a Nintendo system the consumer is locked into buying games from the same source. Unless new technology is priced low enough to sell in volume, there is no hope of creating a lucrative mass market for software.

The argument is logical. But outside investors have their doubts. Nintendo's shares peaked against the Japanese stock market in 1990, while Sega has continued to rise. Sega was first to launch a more powerful 16-bit games computer – its Megadrive system – which allowed the company to win market share from Nintendo. Sega now has 40 per cent of the market in the US and Europe.

Sega has adopted a typically aggressive policy towards new technology, forming joint ventures with companies ranging from IBM and Pioneer to Time Warner and W Industries – a small British company which specialises in virtual reality products. Sega's ambitions run well beyond video games.

"We will expand the market with these alliances. By collaborating in CD-ROM technology, for example, we will be able to introduce elements of publishing or education into our products," said Mr Hideki Sato, director of R&D at Sega.

By pursuing its ambitions in so many areas, Sega is running risks of its own. Other areas of consumer electronics have been blighted by the inability of manufacturers to agree on common standards. There must be a danger of the same thing happening again. The giants of consumer electronics are pouring resources into CD-ROM technology and not all will be successful.

Mr Sato admits it may take 10 years before an industry standard CD-ROM is established. But he believes Sega's best chance of being among the winners lies in getting its products to market first.

For the time being Nintendo seems content to let Sega make the running. The risk facing Nintendo is that a competitor using proprietory technology – possibly Sega, but perhaps 3DO of the US – will develop a system which is a quantum leap not just in technological prowess but also in entertainment value.

Should that happen Nintendo believes it will be able to get access to new technology, in the best Japanese tradition of picking up ideas from rivals and making them better. The history of Nintendo in the 1980s demonstrates that successful home entertainment products are not the most advanced, but the most cleverly manufactured and marketed. Having taken a back seat in the drive for technology itself, though, Nintendo will have to repeat the trick.

Health care is lesss impressive than it seems, says **Emiko Terazono**

Financial sclerosis

MISS Yoko Hirokawa, a 19 year old student, is one of many Japanese patients who have received liver transplant operations in Australia.

She went there because of the lack of fresh organs to be used in transplants. This is due to the Japanese law which refuses to define brain-dead persons, the principal source of transplant organs, as legally dead.

However, although parliament is discussing a redefinition of death to allow organ transplants in Japan, the country's healthcare system may stand in the way of such innovative treatments.

Miss Hirokawa had her operation only after raising A$140,000 through donations and loans not covered by Japan's insurance. Such costs mean that even when transplants are approved in Japan, only those who can afford such services will be treated.

The Japanese system assures broad access to care as well as low fees through cost sharing and government negotiated fees for services and supplies. However, rigid cost control methods cause mounting frustration for patients.

In theory, all Japanese are covered either through company plans or national health insurance. In the US, on the other hand, 13 to 15 per cent of citizens have no health insurance at any one time.

At present, 31.4 per cent of health care costs in Japan are met by central and municipal governments, 56.3 per cent by the premium payers, which includes employers, and 12.1 per cent by the patient.

Comparing Japan's longevity and infant mortality rates with those in the US, the Japanese system may seem superior. In Japan, the life expectancy for men is 76 years and for women 82 years, compared with 72 for men and 78.8 for women in the US.

The infant mortality rate is 4.6 per 1,000 live births in Japan, exactly half the US rate.

However, a visit to a Japanese hospital for treatment reveals the negative side of this apparently impressive health system.

The hospital is probably dingy and the patient will have to wait for over an hour in a crowded waiting room before seeing a doctor.

There is little interaction between patient and doctor. Instead, the patient will be dismissed with a long list of drugs, prescribed with scant explanation of his illness or of the nature of the medication.

Such procedures stem partly from the heavy cost controls which militate against new procedures and technology.

The fee structure is determined in detail every two years by the Central Social Medical Care Council in the light of financial reviews of hospitals and clinics and the types and frequency of medical treatment.

This helps to prevent sharp increases in costs, but also tends to stultify medical services.

According to Pat Murdo, analyst at Japan Economic Institute in Washington DC, the council curbs costs by delaying approval to pay for new procedures and technologies.

The delays have the advantage of ensuring that the government has time to ensure the effectiveness of new techniques. But critics fear that delays in diffusing new methods work to the detriment of patients who cannot afford to pay privately for life-saving treatments.

Emphasis on cheaper primary treatment also helps doctors to identify symptoms before they turn into serious ailments. But such controls result in low quality service which most patients face – long waiting lists and limited communication with the physician.

Meanwhile, as doctors are reimbursed for the drugs that they prescribe, they tend to overdispense. In 1991, drug costs in Japan comprised 42.7 per cent of total medical costs; in the UK they were only 11.7 per cent and in the US only 9.3 per cent.

At the same time, recent efforts by the Ministry of Health and Welfare to cut official costs of older, less innovative drugs have resulted in the prescription of new drugs, especially antibiotics.

Picture: Associated Press

Pressure for change: Tokyo nurses join in a nationwide strike calling for higher health service pay and more nurses

The rigid reimbursement system also fails to address the wage increases and demands, for shorter working hour by medical staff. Iroren – the Japan Federation of Medical Workers' Unions – asserts that medical staff are "overburdened and scarcely able to maintain normal life and health" due to restrictions in the growth of health care costs.

In Japan, there are 33.6 nurses to 100 beds, compared with 40.2 in the UK and 55.1 in the US.

According to Iroren, 60 per cent of health workers work more than six night shifts a month, with the medical staff working an average of hine night shifts.

Further technological advances in treatment and the ageing of the population may eventually prove too much for the health system.

Traditionalism still rules in most schools, says **Simon London**

A weakness for discipline

TOKYO'S most prestigious fee-paying boys school owes nothing to the tradition of Eton or Harrow. Housed in undistinguished concrete in the urban Hiroo district of the city, Azabu Gakuen looks like a product of the 1960s heyday of comprehensive education in the UK.

That resemblance runs more than skin deep: the relaxed attitude of the teachers, casual dress and unruly classrooms are evidence of a liberal attitude never embraced by the bastions of the British public school tradition.

But Azabu is far from representative of Japanese schools. It can afford to go against the grain because it gets results. It sends a higher proportion of pupils to prestigious universities, notably Tokyo University, than almost any other school. In the eyes of status-conscious Japanese parents, that is the sole barometer of success.

Although fee-paying, entrance to Azabu is by competitive examination only. In that respect it is very much a product of the Japanese system. It prospers by its ability to get pupils through the university entrance examinations, and sets its own entrance examinations to cream off the best pupils.

To stand a fighting chance of getting to Azabu, and thence to Tokyo University, most pupils will have already passed entrance examinations to win a place at a good preparatory school. For many the process of testing will have started at the age of three.

"We can afford to be liberal because our pupils are all keen to learn and want to succeed," said Mr Takao Negishi, Azabu's headmaster.

Faced with intense competition at every stage – and pupils generally less blessed with diligence or intellect than Azabu – mainstream Japanese schools favour a disciplinarian approach. At Takamatsu Junior High, a model state school in suburban Tokyo, a strict code of uniform, punctuality and good behaviour prevails.

That might be enough to make traditionalists in many European countries weep with nostalgia.

The role of testing, the existence of a national curriculum and a thriving private sector would equally win plaudits among conservative educationalists in the UK.

Conversely, though, the approach is now being questioned in Japan. For example, while in principle the national curriculum has almost universal support among Japanese teachers, the design of the current curriculum is seen to place too much emphasis on the accumulation of facts while neglecting creative thought.

There is some sympathy with this view within the Ministry of Education. Its interest does not stem from liberal sentiment: the over-riding question for government is whether Japanese schools are producing the workforce required by the service and high-technology industries of the future.

Even though Japan spends less on education as a percentage of gross domestic product than its industrial rivals – classes of 40 pupils per teacher are the norm – it achieves higher rates of literacy and numeracy. The worry is that such basic skills no longer suffice. Yet while the main function of schooling is – in the eyes of many parents – to propel children up the educational pyramid with Tokyo University at its apex, piecemeal reform of the curriculum is unlikely to transform the system. Schools like Azabu are free to tailor tuition to fit the requirements of university entrance examinations. For example, ninth grade pupils at Azabu spend six hours per week on mathematics.

AT TAKAMATSU pupils of the same grade receive only four hours tuition – as demanded by the national curriculum. If the state sector strays too far from the three-R's, the gulf between public and private schools will only widen.

The emphasis on examinations has also created an industry of "juku" or cramming schools, which children are expected to attend outside normal hours for extra tuition in core academic subjects. Like Azabu, the better juku do not come cheap. That raises the question whether a traditionally egalitarian education system – what could be more egalitarian than a system based squarely on entrance examinations? – is now failing the poor.

The growth of private schools is also adding to the problem of falling rolls as Japan passes through demographic changes more pronounced than in the UK. Takamatsu's newly refurbished buildings now house 469 pupils, against more than 1,500 in the mid-1980s. The encroachment of private schools means still fewer pupils, and can cause problems in the classroom.

"The best pupils in this area are more likely to attend private schools. The natural leaders are taken out of our classes. "There is no problem with discipline, but motivating the remaining pupils to learn has become more difficult," said Mr Makoto Kawashima, headmaster at Takamatsu.

The Ministry of Education sees two options to close the gap between public and private education: either deregulate the state sector, allowing public schools to imitate fee-paying schools, or regulate the private sector by imposing the national curriculum strictly across the board.

Neither option is particularly attractive. The first would only reinforce the reputation of Japanese schools as rigorous crammers and increase examination pressures. The second would require heavy-handed intervention in a private school system which has widespread support among parents.

Ultimately, though, change may have to filter down through the system from the top before the style of Japanese education changes. "Higher education in Japan has historically emphasised imitation rather than innovation.

Since the end of the last century that has been seen as the way for Japan to compete successfully with the West," commented Mr Michio Nagai, an educationalist and former Minister of Education. "For these historical reasons, Japan has not developed a tradition of basic academic research."

Admission to even the best universities is regarded by students as a comfortable interlude between the pressure of school and the horrors of life as a "salary-man". University entrance exams are thus tests of accumulated knowledge rather than measures of academic potential.

Only if universities value creativity and spontaneity are parents likely to put pressure on schools to do the same. If an education system is a mirror of the society it serves, there can be no more eloquent commentary on the growing pains of Japan itself.